

WORKING PAPER

A 'LIVING WAGE' IN IRELAND

Examining the process &
potential result of
calculating a 'Living Wage'
for working age households
in Ireland

Vincentian Partnership for Social Justice

JANUARY 2014

The logo features a large, stylized 'VP' in blue. The 'V' is formed by two diagonal lines meeting at the top, and the 'P' is a solid block letter. To the right of the 'VP' is the text 'INCENTIAN PARTNERSHIP' in a blue, sans-serif font. Below this, a horizontal line is drawn, with a vertical line intersecting it on the right side. Underneath the horizontal line, the words 'FOR SOCIAL JUSTICE' are written in a smaller, blue, sans-serif font, with 'FOR SOCIAL' on one line and 'JUSTICE' on the line below.

INCENTIAN
PARTNERSHIP
FOR SOCIAL
JUSTICE

Introduction

This working-paper sets out to examine the process for calculating a “Living Wage” for working age households in Ireland, and the potential result that would be produced. For this initial examination of the potential of calculating a Living Wage for Irish households the focus will be limited to working age households based in Dublin. The emphasis in this working-paper is in developing the application of the Living Wage method to the Irish context, the focus therefore is primarily on the process for calculating a Living Wage rate.

Following the release of this paper a series of discussions and discourse will take place with other interested groups. Subsequent to this, the assumptions made in the calculations will be reviewed in light of feedback received, and refined. Therefore, the result of the calculations should not be taken as the final Living Wage figure for Irish households.

The concept of a Living Wage has gained much traction in the UK, and is receiving growing attention. It has been recognised that basing the UK Living Wage on a robust calculation method which is applied consistently and transparently has given it credibility, enabling the Living Wage to take root in the UK and to be applied in practice (Hirsch & Moore, 2011). This robust method uses the Minimum Income Standard (MIS) data and methodology, and is undertaken by the UK MIS researchers at the CRSP, Loughborough University (Hirsch, 2011).

“The principle underlying the Living Wage is simple and powerful: that work should bring dignity and should pay enough to provide families the essentials of life.”

(Hirsch & Moore, 2011: 4)

Unlike the National Minimum Wage, a ‘Living Wage’ would be an evidence based rate of pay grounded in social consensus. The ‘Living Wage’ would be the rate which would ensure that a majority of working age households would have an income which would enable them to afford a Minimum Essential Standard of Living.

This paper shall utilise the Irish Minimum Essential Budget Standards (MEBS) model, which establishes the expenditure needed for a Minimum Essential Standard of Living (MESL) and the Minimum Income Standard (MIS) required by household types to afford that standard of living. The MEBS model has been established for household types in Ireland over the course of multiple research projects, and follows the internationally established Consensual Budget Standards methodology.

This paper will examine the application of the Living Wage method, as developed in the UK, in the Irish context. The steps taken in applying the Living Wage method to the Irish data will be laid out, the calculation of a potential Living Wage rate for Irish households detailed, and subsequently the results produced reviewed in context. The paper has the following sections:

- Minimum Essential Budget Standards
- The Process of applying the Living Wage method
- The cost of a Minimum Essential Standard of Living
- The Living Wage calculations
- Living Wage rate in context
- Conclusion

Minimum Essential Budget Standards

The Minimum Essential Budget Standards (MEBS) dataset is the product of multiple research projects, each building on the previous tranche. The work on establishing Minimum Essential Standards in Ireland was begun by the Vincentian Partnership for Social Justice (VPSJ) in 1999. Since then the VPSJ has continued to use and develop the Consensual Budget Standards methodology to establish Minimum Essential Standard of Living (MESL) expenditure budgets for a variety of household types.

This work establishes a consensus on what members of the public believe is a minimum standard that no individual or household should live below. Working with focus groups (and expert opinion where necessary e.g. nutrition and home heating), the cost of the minimum goods and services that everyone needs for a socially acceptable minimum standard of living are identified. Focusing on needs and not wants, the concern is with more than survival as this is a standard of living which must meet physical, psychological and social needs, at a minimum but acceptable level. It is not a standard for people in poverty; it is a standard for everyone, below which no one should be expected to live.

Following on from the *Minimum Essential Budgets for Six Household Types (Urban)*, (Mac Mahon, Carey & Stokes, 2006) and *Minimum Essential Budgets for Households in Rural Areas* (Mac Mahon, Weld & Thornton, 2010), *A Minimum Income Standard for Ireland* was published in early 2012. This research added further detail to the dataset, enabling the examination of minimum expenditure and income needs for a broader range of household types (Collins, Mac Mahon, Weld & Thornton, 2012). The completion of further research, later in 2012, on the additional needs of family households with up to four children (previously the data was limited to households with up to two children), has enabled a further expansion of the coverage and utility of the dataset (Mac Mahon, Weld, Thornton & Collins, 2012b). Most recently, additional research has established Minimum Essential Budget Standards data for a new household type, a working age co-habiting couple with no children in the household¹.

¹ The research establishing the data for this new household type followed the Consensual Budget Standards methodology, in the same manner as all previous MEBS research. A research paper providing further detail on this new household type is forthcoming.

The MEBS model focuses on what are defined as single family-unit households. These are households that are comprised of either a single adult or a couple, and any dependent children. Therefore, households with other adults, e.g. a household with adult children still resident with their parents, or a household with a couple, their children, and an elderly parent (grand-parent to the children), are not covered in the data. This restriction means the MEBS dataset established the minimum expenditure and income needs of 90% of households in Ireland, and 89% of working age households. The households not covered by the dataset are households with other adults and households with more than four children.

The MEBS dataset covers the following broad household types in both Urban and Rural areas:

- Two Parent household types, with 1 to 4 children
- One Parent household types, with 1 to 4 children
- Single Adults, of working age
- Cohabiting Couple, of working age
- Pensioner household types

The Living Wage – Process

The MEBS model provides great detail on the expenditure and income needs of a large range of household compositions. There is not a single answer to what the cost of a Minimum Essential Standard of Living (MESL) or Minimum Income Standard (MIS) is. The result is complex, as the cost of an MESL varies by household type and composition, location, and employment pattern.

The MEBS model dataset can specify the MESL expenditure needs for a multitude of household situations. The dataset allows for the examination of the expenditure needs of households with 1 to 4 children across four age-groups, this equates to 69 possible Two Parent household compositions and 69 possible One Parent household compositions.

Consequently there is an enormous range of possible results for the Minimum Income Standard. For each household type and composition the expenditure and income need is different. Further variation in the MESL and MIS need are introduced by the consideration of different employment patterns which determine the level of childcare required by a household, and consequently the MESL expenditure need. Finally, the housing costs particular to a given scenario, also contribute to the large variation in results. The Minimum Essential Budget Standards model allows for all these variations to be taken account of, and calculates the MESL expenditure need and MIS salary requirements for a specific household composition and scenario.

The detail and flexibility of the MEBS model therefore provides an evidence based measure, grounded in the lived experience of households, with which to assess the adequacy of wage

levels across a broad variety of household compositions. The Living Wage approach provides a method to distil the multiple MIS rates into a single central rate of pay which will meet the minimum needs of at least a majority of the households in Ireland today. This approach builds on the MEBS model and methodology, and its calculation follows a clearly stated rationale. To calculate the Living Wage rate the following steps are undertaken:

1. A set of household compositions which are representative of the wider population are identified
2. The core weekly cost of a Minimum Essential Standard of Living (excluding housing and childcare) is compiled for each household composition
3. For household compositions with children, the MESL expenditure for Childcare is determined
4. The appropriate minimum standard housing cost is identified for each household composition
5. Having established the full MESL expenditure need for each household composition, the Minimum Income Standard salary rate required to afford that standard of living is calculated for each composition
6. The Living Wage rate is calculated from this range of MIS rates by producing an average wage requirement, weighted by the proportion of households represented by each composition.

Household Compositions

To move from a myriad of MIS rates to a single Living Wage rate, a set of ten representative household compositions is first established. One specific household composition is chosen to represent each household type. For example a household composition of Two Parents with Pre-School and Primary School aged children is chosen to represent Two Parent & Two Child household compositions.

The choice of each specific household composition is made with reference to the Census 2011 data. For each type of household composition, the most frequently occurring compositions are identified. The final compositions were chosen on the basis of being amongst the most frequently occurring and also being representative of the range of child age-groups. The 10 household compositions in the Living Wage calculations are:

Table 1 Living Wage Household Compositions

Household Type	Household Composition	Child Age-Groups
Two Parent	1 Child	Infant
	2 Children	Pre-School & Primary
	3 Children	Infant, Pre-School & Primary
	4 Children	2 Primary & 2 Secondary

One Parent	1 Child	Primary
	2 Children	Pre-School & Primary
	3 Children	Primary & 2 Secondary
	4 Children	2 Primary & 2 Secondary
Single Adult	-	-
Cohabiting Couple	-	-

The cost of a Minimum Essential Standard of Living

At its heart the MEBS model defines the cost of a Minimum Essential Standard of Living (MESL). This cost is directly based on the actual price of a detailed basket of over 2,000 items which the research has established as essential for enabling a socially acceptable minimum standard of living. The final weekly expenditure figure is the cost of all the goods and services broken down over the lifespan of each item and contains everything from daily food to household furniture. While some items are bought on a weekly basis such as food, others are bought less frequently, in terms of weeks, months or even years. To calculate the weekly cost of each good and service, the cost of the item is divided by the number of weeks the item is reasonably expected to last e.g. a three piece suite of furniture may cost €900, which with a lifespan of 780 weeks (15 years) equates to a cost €1.15 per week.

Table 2 Minimum Essential Standard of Living Core Expenditure (€ per week)
Excluding Housing & Childcare and effect of secondary benefits

	Two Parent				One Parent				No Children	
	1 Child	2 Children	3 Children	4 Children	1 Child	2 Children	3 Children	4 Children	1 Adult	2 Adults
Food	96.61	127.10	158.35	239.97	73.43	97.68	173.07	210.55	57.92	85.24
Clothing	30.87	25.91	42.52	52.56	14.74	19.69	39.63	46.33	10.95	14.26
Personal Care	25.71	19.09	29.83	37.21	9.95	11.36	26.77	29.48	13.91	17.01
Health	13.46	12.22	18.80	18.81	7.24	9.93	13.89	16.53	5.12	7.74
Household Goods	26.13	21.36	31.64	28.49	17.43	20.15	24.60	27.28	6.09	7.09
Household Services	6.36	6.36	6.36	6.36	6.36	6.36	6.36	6.36	3.46	3.46
Communications	14.21	14.21	14.21	23.66	9.48	9.48	18.93	18.93	9.51	14.24
Social Inclusion & Participation	55.87	72.34	74.12	132.84	45.89	49.97	96.31	110.47	38.66	70.18
Education	2.39	9.12	9.12	46.43	9.12	9.12	39.70	46.43	5.47	8.80
Transport	57.69	63.34	63.34	69.00	31.67	34.50	37.32	40.15	34.55	66.24
Household Energy	45.09	43.64	47.82	49.10	43.38	43.38	46.11	48.84	27.95	30.81
Personal Costs	9.42	9.57	9.82	9.96	6.61	6.81	7.00	7.20	6.42	11.00
Insurance	47.41	54.12	60.82	67.52	28.99	35.69	42.39	49.09	21.26	39.68
Savings & Contingencies	23.20	28.21	33.21	38.22	18.75	23.76	28.76	33.77	10.01	15.02
CORE EXPENDITURE	454.43	506.57	599.95	820.11	323.02	377.86	600.84	691.40	251.28	390.78

The household budgets are broken down into a set of categories of expenditure. While the costs of the majority of these categories are fixed, others vary depending on the employment and income situation of the household in question. These fixed, or core, costs are listed in the table above for each of the Living Wage household compositions.

Childcare costs vary depending on the employment pattern of the parent(s) in the household; therefore the expenditure need for childcare is discussed in more detail below. Similarly, the cost of housing, e.g. rent, depends on the tenure and type of dwelling a household resides in. The housing costs for each of the household compositions are examined in more detail below, also. Finally, the minimum need for health related expenditure varies according to a household's medical card eligibility. The impact of medical card eligibility on household's MESL expenditure need is discussed in the context of the income calculations below.

Childcare

Childcare is amongst the largest categories of expenditure for household types with children. Depending on the age-group of the children in the household, full-time childcare can account for as much as 36% of household expenditure. For households with younger children, childcare and housing are the two largest categories of minimum expenditure need. Childcare, housing and food account for over 60%, on average, of the minimum expenditure needs of households with children. The MESL core expenditure for household types, outlined above, excludes childcare, as this is a cost that varies according to the employment pattern of the head of household adult(s) and the age of the children within the household. The childcare cost specific to each household composition is detailed below.

The MESL dataset details the minimum expenditure required for children across four age groups (Mac Mahon, Weld, Thornton & Collins, 2012a). These minimum needs were first established for children at three key ages, each age representing a distinct age group, pre-school (3 years old), primary school (10 years old) and second level school age (15 years old) (Mac Mahon, et al., 2006). The costs were adjusted in line with inflation each year, and subsequently the minimum needs for a baby were added to the dataset, establishing a fourth distinct age group (Collins et al, 2012). The contents of the expenditure budgets for all four age groups were then reviewed with focus groups as part of an overall review of the MESL dataset, and also establishing the additional and different needs of households with three or four children (Mac Mahon, et al., 2012b). The entire MESL dataset is adjusted annually, in the second quarter of each year, to reflect changes in prices. The adjustment process utilises Consumer Price Index detailed sub-indices rates from the CSO, and the process is detailed in a recent VPSJ research note (VPSJ, 2013).

The focus group consensus on the minimum needs for childcare, determined that childcare is a necessity (when required by parental employment) for children in the first three age

groups, but not for second level age children. The basis of the MESL childcare costs are discussed in more detail in *The Cost of A Child* report (Mac Mahon, et al., 2012a).

The MESL expenditure budgets have costs for both full and part-time childcare. In two parent household types part-time childcare costs are included in scenarios where one adult is employed full-time and the other part-time, and full-time childcare costs are included where both adults are employed part-time. In one parent household types, part-time childcare costs are included in scenarios where the parent is employed part-time, and full-time childcare costs where the parent is employed full-time.

The childcare costs for infant and pre-school age children are based on private childcare providers in the Dublin area. The pre-school age cost takes account of the Early Childhood Care and Education (ECCE) scheme. For primary school age children, the childcare costs include after school care when full-time childcare is required, and also care during school holidays. The costs are based on childcare being provided by a relative/friend, and the focus groups agreed on what an appropriate weekly payment to a relative or friend would be in this situation.

The 2013 Urban childcare costs for each age-group are detailed in the table below, for both full-time (FT) and part-time (PT) care. The full childcare costs for each household composition in the Living Wage calculations are noted in Table 6. The Living Wage is calculated on the basis of all adults in each household type being engaged in full-time employment. Therefore, full-time childcare costs are included in the households' MESL expenditure needs as appropriate.

Table 3 Childcare costs by Age-Group, (€ per week)

	Infant	Pre-School	Primary	Second Level
FT Childcare	208.69	178.75	52.57	0.00
PT Childcare	130.30	73.60	13.14	0.00

Housing cost

As explained above, the MESL data details the expenditure required for household types to maintain a minimum standard of living. The core expenditure budgets do not specify a cost for housing, however when examining the situation of a household in an income scenario an appropriate housing cost is included. To date in the MESL and MIS research the housing cost has been based on either social housing or private rented accommodation.

In the MESL and MIS research thus far when examining an income scenario for households with children the housing costs were based on social housing. In these scenarios the differential rent payable in the income scenario being examined was calculated, in accordance with the rent scheme specified by the local authority in question. However, as

social housing tends not to be available to households of working age adults without children, the housing costs for households of this type (e.g. single adult of working age) have been based on private rented accommodation.

As the Living Wage is intended to be a floor wage that is broadly applicable to a variety of household compositions and circumstances, it is crucial that the housing costs included in the calculations be broadly representative of the situations most commonly found. Therefore, this section examines the current availability of social housing in order ascertain if social housing is an appropriate housing cost for the Living Wage calculations.

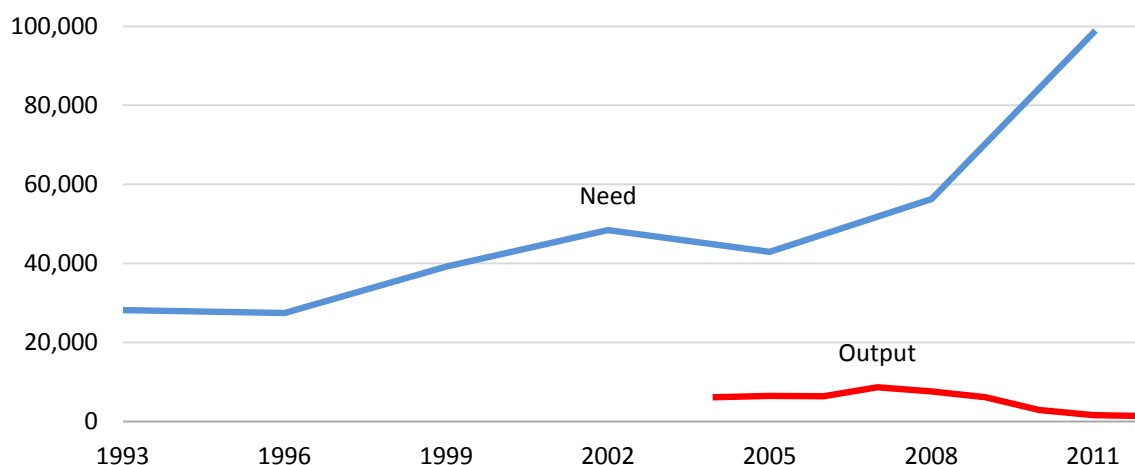
The final housing type and cost is then presented for each household type in the Living Wage calculations.

Social Housing

Social Housing is the minority tenure in Irish housing. Nationally, 70% of housing is owner occupied and 19% is private rented. Social housing, from both Local Authorities and Voluntary & Co-Operative bodies combined, accounts for only 9% of housing units. The proportion of social housing varies between urban and rural areas, 11% and 4.5% of housing units respectively, but not to a degree that changes the minority position of social housing overall (CSO, 2012a).

The most recent data on social housing need found that there were over 98,000 households on the social housing waiting list nationally (Housing Agency, 2011). As illustrated in Graph 1, below, the numbers on the waiting list have grown significantly, and the period from 2008 to 2011 saw an increase of 75% nationally and of 85% in Dublin (DoEC&LG, 2011). However, while the numbers in need of social housing have been growing, the output of new social housing units has been dwindling. The output of new social housing units has dropped by 82% between 2008 and 2012, with only 1,391 new units added to the national stock of social housing in 2012 (DoEC&LG, 2013).

Graph 1 Number of Households in Need of Housing & Output of New Social Housing Units



Examining the detailed statistics from the Housing Needs Assessment (DoEC&LG, 2011) data reveals that 77% of households have been on the waiting list for at least a year, with 37% waiting for over three years. The waiting list data also categorises households by the cause of their housing need. The categories of need with the largest growth from 2008 to 2011 are household not able to afford their current accommodation, increased by 122%, and households involuntarily sharing (i.e. living with parents/relatives/friends) increased by 72%.

The above data demonstrates that social housing is not generally available and readily accessible to household types which are assessed as being in need of housing. Furthermore, it seems clear that the situation of social housing is worsening as the output of new supply is in decline at a time of rapid growth in need. Two further points indicate that social housing is not an appropriate basis for the housing costs in the Living Wage calculations. Firstly, only a minority of households, 15%, which are assessed as in need of social housing are in employment. Secondly, the majority, 70%, of households assessed as being in need of social housing are currently living in private rented accommodation.

The fact that social housing comprises only a small percentage of housing units in the state does not make it an inappropriate choice for the Living Wage calculations. Social housing exists to provide below market price housing to households in need. If the available data indicated that social housing was generally available and accessible to households in need, then it would be appropriate to base the housing costs in the Living Wage calculations on social housing. However, the statistics on the numbers of households in need of assistance with housing and waiting for social housing, combined with the data on the low level of new social housing units being produced, clearly indicates that social housing is not currently accessible to the majority of households in need of support to afford adequate housing. Therefore, for the purposes of the Living Wage calculations, housing costs cannot be based on social housing.

Private Rented Housing

It has already been established in previous MESL & MIS analysis, that where a household type would not have access to social housing, that private rented housing is an appropriate minimum standard of housing. This has been the case for income scenarios examining the position of urban working age single adult household types.

Given the lack of availability of social housing to all working age household types, including those with children, the housing cost for the living wage calculations will be based on private rented accommodation.

The UK Living Wage calculations base housing costs on private rented accommodation for household types without children, as in the UK context it is regarded as unreasonable to assume that these household types would have access to social housing. When calculating

the cost of private rented accommodation for these household types an estimate of the cost of renting at the 25th percentile of the market is utilised.

The distribution of housing tenure in Ireland is different from that in the UK. In Ireland there is a higher proportion of households in private rented accommodation and a smaller proportion of households in social housing, compared to the UK. Additionally, the income levels of households privately renting in Ireland is different from the income levels of households privately renting in the UK. There is a notably higher rate of households at risk of poverty (below 60% of median income) living in private rented accommodation in Ireland, than in the UK (Eurostat, 2013). Finally, the majority of households living in the private rented sector in Ireland are at the lower end of the income distribution; over 50% of households in this tenure are in the lowest four income deciles (CSO, 2012b). These factors indicate that the rental market in Ireland is more dominated by lower income households than in the UK, as the UK has greater provision of social housing.

The above factors indicate that the average market rent in Ireland is likely to be more reflective of the rent paid by low income households in Ireland, than it would be in the UK. Therefore, the average rent may be an appropriate basis for the housing cost for the Living Wage calculations.

The Private Residential Tenancies Board (PRTB), in co-operation with the ESRI, compiles an index of the actual rents paid across the country. The average rent by dwelling type, size and location is available in this index. The average cost of renting in the Dublin area is presented below. The prices are from Q1 2013; this corresponds to the price period for the MESL expenditure budgets.

Table 4 Monthly Housing Cost by Household Type

Household Type	Dwelling Type	Size	Rent per Month
Single Adult	Flat	One Bedroom	608.59
Couple	Flat	One Bedroom	608.59
Two Parents, 1 Child	Terraced House	Two Bedrooms	954.33
Two Parents, 2 Children	Terraced House	Three Bedrooms	1,066.16
Two Parents, 3 Children	Terraced House	Three Bedrooms	1,066.16
Two Parents, 4 Children	Terraced House	Three Bedrooms	1,066.16
One Parent, 1 Child	Terraced House	Two Bedrooms	954.33
One Parent, 2 Children	Terraced House	Three Bedrooms	1,066.16
One Parent, 3 Children	Terraced House	Three Bedrooms	1,066.16
One Parent, 4 Children	Terraced House	Three Bedrooms	1,066.16

(PRTB, 2013)

The cost for each household type varies in accordance with dwelling size, the dwelling size chosen is based on the minimum acceptable size (in terms of number of bedrooms) specified by focus groups in the MESL research for each household composition. For each household type the lowest cost appropriate dwelling type was chosen, for example the cost of a two bedroom terraced house was chosen instead of a two bedroom apartment, as the rent for the house cost €68 less. The table above presents the average monthly rent in Dublin for each household type.

An alternative to utilising the average rent paid in Dublin may be to utilise the Rent Supplement maximum rent ceiling in the Dublin areas (DSP, 2013). It could be argued that the Rent Supplement maximum rent ceiling is an official indication of what low cost but acceptable rented accommodation costs. The maximum rent limits are an estimate of the 40th percentile of the rental market (DSP, 2011). However, the Rent Supplement ceiling has been criticised for being set unrealistically low. Groups such as the SVP (2013) and Threshold (2012 & 2013) have argued that many people find it difficult to find suitable accommodation within the rent limits allowed under the Rent Supplement.

Table 5 Dublin Area Average Rent compared to Dublin Area Rent Supplement Ceiling

	1 Child	2 Children	3 Children	4 Children	Single Adult	Couple
Average Rent	954.33	1,066.16	1,066.16	1,066.16	608.59	608.59
Rent Supplement	950.00	975.00	1,000.00	1,000.00	520.00	750.00

Comparing the Rent Supplement maximum rents allowed for each household type to the average market rent for each household type, shows that in the majority of cases there is not a significant difference between the two rates. This re-enforces the probability that the average rent paid is reflective of the cost of renting for the majority of lower income households. Therefore, for the Living Wage calculations the overall Dublin average is utilised.²

The Living Wage calculation

The Living Wage calculations are based on calculating the Minimum Income Standard (MIS) for each of a set of representative working age household types. The MIS calculations ascertain the gross salary required by a household type in order for the household's net income (salary net of tax plus any social welfare entitlements) to adequately meet the cost of a Minimum Essential Standard of Living.

² A 'Living Wage' rate was calculated using the Rent Supplement maximum rents for Dublin as the housing costs. The result produced was not significantly different from the final rate calculated on the basis of average rental costs. See the appendix for further details of this alternative calculation.

Minimum Income Standard Methodology

The MIS method and process was established in the 2012 *A Minimum Income Standard for Ireland* (Collins, et al.) study. That research was conducted in 2011, and applied the income tax rates, tax credits, social welfare entitlements, means tests, etc., as they were at that time. The MIS model has been updated each year to take account of any relevant changes in the tax and social welfare system in Ireland. It is this model which drives the Minimum Income Standard calculator web application (www.MISc.ie).

The calculation of the Minimum Income Standard starts by calculating the household type's income on the basis of each employed adult earning the National Minimum Wage (€8.65 per hour). The income scenarios in the Living Wage calculations are based on all adults in the household being employed full-time, thereby maximising income from employment. The MIS method, calculates the PAYE income tax liability, PRSI contribution and amount of USC payable, and also assesses eligibility for any social welfare entitlements applicable to the household type. Where the minimum wage does not provide the basis for an adequate household income (net salary plus any social welfare entitlements), the MIS method recalculates household income on the basis of incremental increases in salary, re-assessing the adequacy of household income at each increment. The MIS method involves multiple iterations of these calculations, each iteration representing a €0.10 incremental increase in hourly salary. The Minimum Income Standard for a household is reached at the point where total household income meets the MESL expenditure need of the specified household type.

Table 6 Tax & Social Welfare assessed in MIS calculations

Tax	Tax Credits	Social Welfare Transfers
Income Tax	Single Person	Medical Card (Full & GP Visit)
PRSI	Married Couple	Child Benefit
Universal Social Charge	OPF (One Parent Family)	One-Parent Family Payment (OFFP)
	PAYE	Family Income Supplement (FIS)
	Health (Tax Relief)	Back to School Clothing & Footwear Allowance (BSCFA)

The table above lists the Tax and Social Welfare Transfer payments which are included in the MIS calculations. The tax credits appropriate to the household composition and employment scenario are applied in each calculation. Additionally where the household meets the basic eligibility criteria for the social welfare payments listed the appropriate means test is applied at each iteration of the MIS calculations. Finally, household entitlement to the medical card is assessed with each salary iteration in the calculations. Where the household is assessed as eligible for a medical card the household's MESL expenditure need is adjusted to reflect this.

MIS Calculations

The table below provides a detailed breakdown of the MIS for each household type and composition. The first section of the table provides the household expenditure need. The MESL core expenditure plus housing and childcare, as detailed above, are included. The core MESL expenditure includes full health costs for each household composition. The medical card eligibility of each household composition is tested as part of the MIS calculation, and a deduction is made to the expenditure need to reflect any medical card entitlement. The household may be entitled to a Full Medical Card, GP Visit Card, or no medical card. The calculation of the Universal Social Charge (USC) also reflects the household's medical card entitlement.³

The second section of the table details the MIS household income for each household composition. The income calculations are based on the following:

- All adults in the household being employed full-time, i.e. both adults employed in the Two Parent household compositions and the Two Adults without children household type
- The adults in the Two Parent household composition are jointly assessed for income tax
- The Two Adult without children household composition does not assume that the couple are married, and therefore does not jointly assess for income tax
- It is assumed that households are claiming all applicable tax credits and tax reliefs, as outlined above
- Medical Card entitlement is assessed in accordance with the national guidelines (HSE, 2013)

In each case the final Minimum Income Standard for the household is expressed in the terms of the gross full-time salary each adult in the household would need to earn to ensure the household could afford a Minimum Essential Standard of Living. This salary is also expressed as an hourly rate, based on a standard 37.5 hour working week.

Living Wage Calculation

The table below sets out the MIS requirements for a set of representative household compositions to afford a socially acceptable Minimum Essential Standard of Living, when working and living in Dublin in 2013. Clearly each household composition has a different wage requirement. Furthermore, the MIS detailed are based on the assumptions laid out above; if the circumstances of a household are different the MIS wage requirements will also be different. However, the MIS is not a guarantee to meet every households need, but rather a minimum floor that no household should be expected to live below.

³ A fuller explanation of the impact of medical card entitlement on a household compositions MESL expenditure need may be found in *A Minimum Income Standard of Ireland* (Collins, et al., 2012: 79-80, 121-2).

Table 7 Minimum Income Standard by Household Type & Composition

	Two Parent				One Parent				No Children	
	1 Child	2 Children	3 Children	4 Children	1 Child	2 Children	3 Children	4 Children	1 Adult	2 Adults
MIS Household Expenditure										
MESL Core Expenditure	454.43	506.57	599.95	820.11	323.02	377.86	600.84	691.40	251.28	390.78
Childcare	208.69	231.32	440.01	105.14	52.57	231.32	52.57	105.14	0.00	0.00
Housing	220.23	246.04	246.04	246.04	220.23	246.04	246.04	246.04	140.44	140.44
Medical Card Deduction	-3.44	-61.36	-70.37	-6.30	-31.67	-40.75	-4.59	-5.73	-1.15	0.00
Total MESL Expenditure	879.91	922.57	1215.63	1164.98	564.15	814.47	894.86	1036.85	390.58	531.22
MIS Household Income										
MIS Salary										
Gross Salary 1	504.38	508.13	714.38	650.63	605.63	995.63	1141.88	1366.88	455.63	324.38
Income Tax 1	73.74	76.27	193.87	139.53	25.90	164.35	222.82	314.81	27.03	0.76
USC 1	22.21	16.47	24.72	32.44	20.37	35.97	66.83	82.58	18.79	9.61
PRSI 1	20.18	20.33	28.58	26.03	24.23	39.83	45.68	54.68	18.23	0.00
Gross Salary 2	504.38	508.13	714.38	650.63						324.38
Income Tax 2	-	-	-	-						0.76
USC 2	22.21	16.47	24.72	32.44						9.61
PRSI 2	20.18	20.33	28.58	26.03						0.00
Household Net Salary	850.25	866.40	1128.30	1044.78	535.14	755.48	806.55	914.81	391.58	628.02
MIS Social Welfare										
Child Benefit	30.00	60.00	90.00	122.31	30.00	60.00	90.00	122.31	N/A	N/A
FIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	N/A	N/A
BSCFA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	N/A	N/A
OFP	N/A	N/A	N/A	N/A	0.00	0.00	0.00	0.00	N/A	N/A
Total Social Welfare	30.00	60.00	90.00	122.31	30.00	60.00	90.00	122.31	0.00	0.00
Medical Card Eligibility	GP Visit	Full	Full	GP Visit	Full	Full	GP Visit	GP Visit	GP Visit	None
Total Household Income	880.25	926.38	1218.27	1167.09	565.14	815.47	896.55	1037.12	391.57	628.02
Hourly MIS Rate	13.45	13.55	19.05	17.35	16.15	26.55	30.45	36.45	12.15	8.65
Weekly MIS (1 FT)	504.38	508.13	714.38	650.63	605.62	995.63	1141.88	1366.88	455.63	324.38

Table 8 Living Wage Weighting & Calculation[†]

	Two Parent				One Parent				No Children	
	1 Child	2 Children	3 Children	4 Children	1 Child	2 Children	3 Children	4 Children	1 Adult	2 Adults
Hourly MIS Rate	13.45	13.55	19.05	17.35	16.15	26.55	30.45	36.45	12.15	8.65
Weighting	0.15	0.16	0.08	0.02	0.09	0.05	0.02	0.01	0.24	0.21
MIS x Weighting	2.02	2.10	1.45	0.40	1.38	1.21	0.54	0.21	2.86	1.78
Living Wage Rate	13.95									

[†] Rounded figures shown, unrounded figures used in calculations. The product of rounded figures will produce a different result from that listed.

The Living Wage calculation attempts to overcome the multitude of varying MIS requirements, by producing an average wage requirement that will meet the minimum needs of at least a majority of working age household types. Therefore, the Living Wage rate is calculated from this range of MIS rates by producing an average wage requirement, weighted by the proportion of households in each composition.

The weighting given to each household is based on data from the 2011 Census (CSO, 2012) and represents the number of each household composition living in urban areas. This encompasses 792,545 households. The weighting listed in the table below represents the households in each composition, as a percentage of the urban working age (i.e. non-pensioner) households covered by the Minimum Essential Budget Standards data.

The calculations produce a Living Wage rate of €13.95 per hour. This equates to a full-time gross salary of €523.12 per week for one person employed full-time. This wage rate would meet the minimum needs of 75% of working age households covered by the MESL model.

While this living wage rate represents a floor which will cover a majority of working age households, it is notable that this does not meet the minimum needs of relatively common household compositions such as One Parent & One Child or Two Parents & Three Children. A rate which included these household compositions would bring coverage to over 90%, but would require the Living Wage rate to be significantly higher.

Contribution of Social Welfare

The contribution of direct and indirect benefits reduces both the expenditure and income need of the household compositions. Four of the household compositions in the Living Wage set qualify for a full Medical Card when earning a MIS salary, this reduces both the expenditure need of the household and the amount of Universal Social Charge levied on the household's gross salary. A further five qualify for a GP Visit card, which has a more modest impact on reducing expenditure need. Additionally, all households with children are in receipt of child benefit, thereby supplementing household income and reducing the required salary for the household composition's MIS. Furthermore, the Early Childhood Care and Education (ECCE) Scheme provides three hours of free pre-school for five days a week, 38 weeks a year, for pre-school aged children. This indirect benefit reduces the cost of childcare for household compositions with a child in the pre-school age group.

In order to examine the impact of the above benefits on the Living Wage rate, the Living Wage was calculated excluding all benefits, including those listed above. This entailed no eligibility for a Medical Card, no Child Benefit (or any other direct social welfare transfers), and no ECCE Scheme subsidising the cost of pre-school age childcare. In this hypothetical scenario the MIS requirements of 9 of the 10 household compositions increased. The only exception is the Couple without children, the actual MIS for this household composition does not include eligibility for any direct or in-direct benefits.

Basing the calculations on the employment pattern of all adults working full-time, as used in the primary Living Wage calculation, produces a Living Wage (No Benefits) rate of €15.95 per hour. This is €2.00 higher than the actual Living Wage rate calculated. This demonstrates that Child Benefit, the Medical Card and ECCE scheme do have an impact on reducing the Living Wage rate requirement.

The Living Wage rate in context

The product of the above calculations produces a Living Wage rate which equates to an hourly salary of €13.95 per hour. This rate will meet the Minimum Income Standard needs of a majority of the households covered by the MEBS model, when it is paid in the context of full-time employment, as detailed above. The rate of €13.95 per hour is €5.30 higher than the National Minimum Wage (NMW) rate of €8.65 per hour.

While, it is inescapable that the Living Wage rate is notably higher than the NMW, it must also be noted that the Living Wage rate does not amount to an above average salary. The Living Wage rate equates to a gross annual salary of €27,000. Data from the CSO finds that the average hourly earnings of all employees were €22.20 in the first quarter of 2013 (CSO, 2013), which would be the equivalent of a gross annual salary of €43,290⁴. The Living Wage of €13.95 per hour is 63% of the average hourly salary in Ireland.

Low-wage earners are defined as employees earning two-thirds or less of national median hourly wages. The most recent Eurostat report on low-wages found that the low-wage threshold for Ireland was €12.20 in 2010 (Eurostat, 2012). While the Living Wage rate calculated for 2013 is above this level, it is notably closer to the low-wage threshold than to the average wage rates. On an annual full-time basis the low-wage threshold equates to a gross salary of €23,790. The Living Wage is €3,400 above the low-wage threshold, when compared on the basis of a full-time annual salary.

The Living Wage rate compared to the UK Living Wage rate

The Living Wage for the UK, outside of London, as calculated by UK MIS researchers, was £9.08 for 2013. This is the reference Living Wage rate for the UK in 2013 (Hirsch, 2013)⁵. To compare the UK reference rate to the result produced here for Dublin requires taking account of the difference in the cost of living between the UK and Ireland. Therefore, rather than simply converting the rate from Sterling to Euro, the Purchasing Power Parity exchange rate for private consumption is utilised (OECD, 2013). Applying this rate, converts £9.08 in the UK to an equivalent of approximately €11.95 in Ireland.

⁴ Based on working 37.5 hours per week.

⁵ As part of the UK Living Wage campaign a cap is placed on the scale of increase in the Living Wage rate from year to year. The calculation of the Living Wage for 2013 produced a rate of £9.08, however this rate represented an increase from 2012 that exceeded the cap. Therefore, the Living Wage Campaign rate for 2013 was adjusted down to £7.65.

The UK rate is lower than the Dublin Living Wage rate of €13.95. A number of factors must be borne in mind when comparing these rates. The core expenditure need (i.e. expenditure excluding housing & childcare) for the UK Living Wage household compositions are higher than for the Irish household compositions. A detailed comparison of the composition of the UK and Irish household budgets would be required in order to ascertain the factors contributing to this. However, the UK Living Wage calculation is based on households with children having access to social housing. As detailed above, this assumption is not made in the calculations for the Dublin Living Wage, due to low availability of social housing in Ireland today. As a result, the housing costs for the household compositions in the Irish calculation are more than double those of the UK households with children⁶. Finally, a different tax and social welfare regime applies in the UK, and this inevitably influences the wage requirements of households. An analysis of the differences between the UK & Irish systems is beyond the remit of this paper.

Conclusion

This paper has set out to examine how to apply the Living Wage calculation methodology developed in the UK to the Irish context. In doing so, the steps for calculating a Living Wage for households in Ireland were established, and the rationale for each assumption in these steps laid out. Finally, the application of the method was demonstrated, utilising the Irish Minimum Essential Budget Standards model a Living Wage for working age household types based in Dublin was calculated.

The Living Wage produced is a rate of €13.95 per hour, which equates to a gross salary of just over €520 per week or €27,000 per annum. While this rate is notably higher than the national minimum wage rate of €8.65 per hour, it is 63% of national average hourly earnings.

The Living Wage is calculated utilising the Minimum Essential Budget Standards model. The Living Wage rate arrived at reflects the salary required in order to enable a socially acceptable minimum standard of living. The cost of maintaining this minimum essential standard of living is significantly affected by the lack of ready access to two crucial services, affordable social housing and affordable childcare. The cost of accessing the minimum housing and childcare required can account for more than half a household's minimum expenditure need.

The Minimum Income Standard is based on the expenditure needs of each household composition. It calculates the salary needed to afford a Minimum Essential Standard of Living. Where the cost of a MESL is driven up by high costs (in this case housing and childcare), the salary needed to meet those costs reflects this. The result of the Living Wage

⁶ For example, the housing cost for the UK Two Parent and one child household composition was £77.84, this converts to €102.44 per week. The housing cost for the equivalent Irish Living Wage household composition, based on private rented housing, is €220.23 per week.

calculations reflects this reality. However, if the situation regarding the provision of affordable housing or childcare was to change, the Living Wage rate would also change to reflect this.

Bibliography

Collins, M., Mac Mahon, B., Weld, G., Thornton, R., 2012. *A Minimum Income Standard for Ireland: A consensual budget standards study examining household types across the lifecycle*. Dublin: The Policy Institute, Trinity College Dublin.

CSO, 2012a. *Census 2011: Profile 4 – The Roof Over Our Heads*. Dublin: Stationery Office.

CSO, 2012b. *Survey on Income and Living Conditions (SILC) 2010*. Dublin: Stationery Office.

CSO, 2013. *Earnings & Labour Costs*. Published on-line, accessed 10th October 2013
http://www.cso.ie/quicktables/GetQuickTables.aspx?FileName=EHQ03.asp&TableName=Earnings+and+Labour+Costs&StatisticalProduct=DB_EH

Department of Social Protection, 2011. *Rent Limits Review Report 2011*. Published on-line
<http://www.welfare.ie/en/downloads/rentreview2011.pdf>

Department of Social Protection, 2013. *Maximum Rent Limits by County*. Published on-line, accessed 5th November 2013
www.welfare.ie/en/Pages/Maximum-Rent-Limits-by-County.aspx

Department of the Environment, Community and Local Government, 2011. *Local Authority Assessment of Housing Needs – 2011*. Published on-line, accessed 1st May 2013
www.environ.ie/en/Publications/StatisticsandRegularPublications/HousingStatistics/FileDownload,27880,en.xls

Department of the Environment, Community and Local Government, 2013. *Social and Affordable Housing Statistics*. Published on-line, accessed 1st August 2013
www.environ.ie/en/Publications/StatisticsandRegularPublications/HousingStatistics/FileDownload,15291,en.xls

Eurostat, 2012. *Statistics in Focus 48/2012*. Published on-line, accessed 3rd December 2013
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-12-048/EN/KS-SF-12-048-EN.PDF

Eurostat, 2013. *Distribution of population by tenure status, type of household and income group*. Published on-line, accessed 5th November 2013
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho02&lang=en

Hirsch, D. & Moore, R. 2011. *The Living Wage in the United Kingdom: Building on Success*. Published online
www.citizensuk.org/wp-content/uploads/2011/06/The-Living-Wage-in-the-United-Kingdom-May-2011.pdf

Hirsch, D. 2011. *Detailed calculation of the out of London Living wage: method, rationale, data sources and figures for the 2010/11 calculation.*

Published online

Hirsch, D. 2013. *Uprating the out of London Living Wage in 2013.*

Published online

<http://www.lboro.ac.uk/media/wwwlboroacuk/content/crsp/downloads/Uprating%20the%20out%20of%20London%20Living%20Wage%20in%202013.pdf>

Housing Agency, 2011. *Housing Needs Assessment, 2011.* Dublin: Housing Agency

HSE, 2013. *Medical Card/GP Visit Card National Assessment Guidelines.*

Published on-line, accessed 29th July 2013

<http://www.hse.ie/eng/services/list/1/schemes/mc/forms/assessmentguidelines.pdf>

Mac Mahon, B., Carey, J., & Stokes, A., 2006. *Minimum Essential Budget Standard for Six Household Types.* Dublin: Vincentian Partnership for Social Justice.

Mac Mahon, B., Weld, G., & Thornton, R., 2010. *Minimum Essential Budgets for Households in Rural Areas.* Dublin: Vincentian Partnership for Social Justice.

Mac Mahon, B., Weld, G., Thornton, R., & Collins, M., 2012a. *The Cost of A Child: A consensual budget standards study examining the direct cost of a child across childhood.*

Dublin: Vincentian Partnership for Social Justice.

Mac Mahon, B., Weld, G., Thornton, R., & Collins, M., 2012b. *2012 Review of the MESL Baskets and Addition of the 3rd & 4th Child to Household.*

Briefing note, published on-line, accessed 26th August 2013

http://www.budgeting.ie/images/stories/2012_Review/2012_Review_of_the_Minimum_Essential_Standard_of_Living_Baskets_and_the_addition_of_the_3rd.pdf

OECD, 2013. *PPPRC: Purchasing Power Parities for private consumption.*

Data published on-line, accessed 23rd August 2013

<http://stats.oecd.org/Index.aspx?DataSetCode=PPPGDP>

Private Residential Tenancies Board, 2013. *PRTB Average Monthly Rent Report by Location, Quarter, Property Type and Number of Bedrooms.*

Published on-line, accessed 1st August 2013

www.cso.ie/px/prtb/Dialog/varval.asp?ma=RIQ01C&ti=PRTB+Average+Monthly+Rent+Report+by+Location,+Quarter,+Property+Type+and+Number+of+Bedrooms&path=../Database/prtb/PRTBStatistics/&lang=1

Society of St Vincent de Paul, 2013. *Submission on Supplementary Welfare Allowance – Review of Maximum Rent Supplements*. Published on-line, accessed 5th November 2013
www.svp.ie/CMSPages/GetFile.aspx?guid=a8192d4b-266f-4713-b5b2-508ef8e7c41d

Threshold, 2012. *Threshold Pre-budget Submission 2013*. Published on-line, accessed 5th November 2013
www.threshold.ie/download/pdf/threshold_prebudget_submission_2013.pdf

Threshold, 2013. *Threshold Pre-budget Submission 2014*. Published on-line, accessed 5th November 2013
www.threshold.ie/download/pdf/threshold_prebudget_submission_to_dept_of_finance_august_2013.pdf

VPSJ, 2013. *Changes in the cost of a MESL in comparison to CPI inflation*.
Technical paper, published on-line, accessed 27th June 2013
http://www.budgeting.ie/images/stories/Publications/Papers/VPSJ_2013_CHANGES_IN_THE_COST_OF_A_MESL_IN_COMPARISON_TO_CPI_INFLATION.pdf