

# A 'LIVING WAGE' IN IRELAND

## Introduction

The concept of a 'Living Wage' is one which has begun to enter the political discourse in Ireland, and has been gaining traction internationally. In particular, the Living Wage has been a successful outcome and tangible application of Consensual Budget Standards research in the UK.

The Living Wage is the gross salary which will enable a majority of working age households to afford a Minimum Essential Standard of Living. Unlike the National Minimum Wage, the Living Wage is an evidence based rate of pay. It is grounded in social consensus, and derived from the Minimum Essential Budget Standards data.

The VPSJ Minimum Essential Budget Standards (MEBS) model establishes the expenditure required by a range of household types to maintain a Minimum Essential Standard of Living (MESL). The model also examines the Minimum Income Standard needed in specific income scenarios for households to afford an MESL.

Over the course of multiple research projects, the MEBS model has been established for 89% of working age households in Ireland, and follows the internationally established Consensual Budget Standards methodology.

This research examines the utilisation of the MEBS data and established Minimum Income Standard model, to calculate the Living Wage rate for the majority of Irish working age households. At this first stage the focus is on Urban based households.

In the accompanying working paper the established UK Living Wage method is examined and adapted for application in the Irish context. This research follows the approach which has proven successful in the UK, and bases the Living Wage calculation on the robust MEBS data and methodology.

## Living Wage & Minimum Income Standard

The research by the VPSJ on Minimum Essential Budget Standards has repeatedly demonstrated the difficulty low income households face in affording a socially acceptable minimum standard of living.

The MEBS model details the expenditure and income needs of a large range of household compositions. The minimum expenditure and income need varies by household type, composition, location, and employment pattern. There is not a single answer to what the cost of a Minimum Essential Standard of Living (MESL) or Minimum Income Standard (MIS) is.

This research is the next development from the MIS research. It aims to make the result of the research of greater utility to policy makers and other stakeholders, by providing a single rate of pay (which is derived from a transparent methodology) which meets the minimum needs of at least a majority of working age people in Ireland.

The Living Wage calculation distils the 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.

The Living Wage calculations are based on calculating the MIS for each of a set of representative working age household compositions. The choice of the make-up of each composition is made with reference to the Census 2011 data.

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 and represents the number of each household composition living in urban areas. (See Table 2)

## Core Costs

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The MEBS model defines the cost of a MESL for a given household composition. This cost is directly based on the actual price of a detailed basket of over 2,000 goods and services, which the research has established as essential for a minimum standard of living.

The costs of the majority of these items are fixed, but others vary according to the specifics of the scenario. The fixed core costs include categories such as food, clothing, and household energy. The MESL Core Expenditure need of each household composition is presented in Table 1.

As part of the MIS calculations, Medical Card eligibility is determined for each household composition. A reduction is made to the household expenditure need to reflect Medical Card eligibility.

## Employment Pattern & Childcare

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The Living Wage calculations are based on all adults in the household being in full-time employment.

Full-time childcare costs are included for household compositions with children, in line with the age of the child. 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.

## Housing Cost

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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.

Social housing was considered as a basis for housing costs in the Living Wage calculations. However, data on the availability and production of social housing indicates that it is not generally available and accessible to households in need. From 2008 to 2011 there was a 75% increase in households waiting for social housing, and a decline in output of 82% from 2008 to 2012.

Therefore, the Living Wage housing costs are based on private rented accommodation. The Private

Residential Tenancies Board average rent index is the source for the housing costs. The housing costs are based on the average monthly rent in the Dublin area, in Q1 2013.

The cost for each household type varies in accordance with dwelling size needed. The size chosen is based on the minimum acceptable size (number of bedrooms) specified by focus groups in the MEBS research. For each household type the lowest cost appropriate dwelling type (house/apartment) was chosen.

## The Living Wage rate

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Table 1 and 2 summarise the expenditure need and makeup of the MIS household income for each household composition.

The core expenditure, childcare, housing cost and any adjustment to be made due to medical card eligibility are presented. The MIS Gross Salary, Income Tax, PRSI and USC are detailed, as are the entitlements to any social welfare payments.

The MIS for each household composition is presented in terms of an hourly rate and full-time weekly salary. Table 2 then gives the weighting for each household composition and presents the calculation of the Living Wage rate.

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 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.

The Living Wage is reported as an hourly rate to enable ready comparison with the National Minimum Wage. However, the hourly rate only constitutes the basis of a Living Income when it is applied in the context of regular full-time employment.

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.

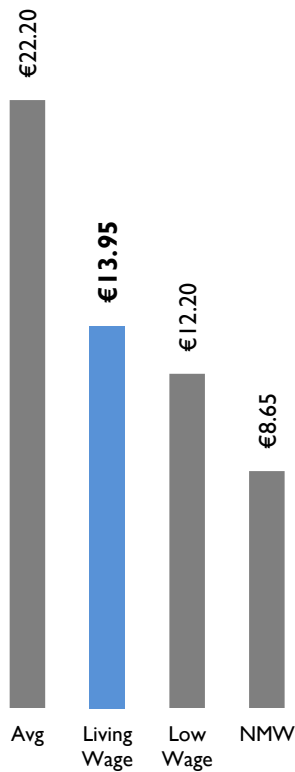
**Table 1 Minimum Income Standard by Household Type & Composition**

	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
<b>MIS Household Expenditure</b>										
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
<b>MIS Household Income</b>										
<b>MIS Salary</b>										
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
<b>MIS Social Welfare</b>										
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
OPF	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 2 Living Wage Weighting & Calculation<sup>†</sup>**

	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									

<sup>†</sup> Rounded figures shown, unrounded figures used in calculations. The product of rounded figures will produce a different result from that listed.



## The Living Wage rate in Context

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 €43,290. 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. 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 Role of Social Transfers & Services

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.

Additionally, all households with children are in receipt of Child Benefit, thereby supplementing household income and reducing the required salary for the household composition. Furthermore, the Early Childhood Care and Education (ECCE) Scheme subsidises the cost of childcare for pre-school aged children.

To examine the impact of the above benefits on the Living Wage rate, an alternative rate was calculated excluding all benefits, including those listed above. In this hypothetical scenario the MIS requirements of 9 of the 10 household compositions increased. The Living Wage (No Benefits) rate is €15.95 per hour. This is €2.00 higher than the actual Living Wage rate calculated. This demonstrates that services and social transfers do have an impact on reducing the Living Wage rate requirement.

## Working Paper

The full working paper A *'Living Wage' in Ireland*, will be available online, along with detailed appendices, see [www.budgeting.ie](http://www.budgeting.ie) or [goo.gl/a3VzL1](http://goo.gl/a3VzL1)

## Disclaimer

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