
MESL ANALYSIS OF SUB-MINIMA RATES ADEQUACY

A Vincentian Partnership *for*
Social Justice
Submission to
The Low Pay Commission

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TACKLING
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EXCLUSION

INTRODUCTION

The VPSJ welcomes the opportunity to make this submission to the Low Pay Commission. While the Low Pay Commission has been tasked with considering a range of factors regarding economic, employment and competitiveness issues in making their recommendations on the National Minimum Wage, the VPSJ considers it vital that consideration is also given to the adequacy of minimum rates of pay. Without such consideration, there is no acknowledgement of the need for a minimum wage to enable an adequate minimum standard of living.

This submission from the VPSJ will highlight the findings of the Minimum Essential Standard of Living (MESL) research in relation to the inadequacy of the National Minimum Wage (NMW) rate, as it stands in 2015 and the increased rate for 2016. It will then examine the adequacy of the sub-minima rates for single working age individuals when living alone and when continuing to live in the parental family home.

The analysis is carried out in the context of the VPSJ's 2015 MESL expenditure needs data¹, and assesses income adequacy on the basis of 2016 rates of Income Tax, PRSI, USC and the 2016 NMW.

MINIMUM ESSENTIAL STANDARD OF LIVING

A Minimum Essential Standard of Living is a standard which no one should be expected to live below. It is the minimum needed to live and partake in Irish society today, meeting the physical, psychological and social needs of individuals and households. It is a minimum standard for everyone, not just those in poverty, and identifies the cost of a dignified standard of living which allows participation in the norms of Irish life. An income below the MESL threshold means individuals & households must go without in order to make ends meet, and must forego items deemed essential for being part of Irish society.

Using the Consensual Budget Standards methodology, over the course of multiple research projects and extensive work with focus groups, detailed baskets of the goods and services vital to a household type's minimum needs have been established. These baskets are comprised of over 2,000 goods & services and define the minimum needs for households to live at a socially acceptable level. The MESL specifies the average weekly cost of all the goods and services necessary to enable a socially acceptable minimum standard of living.

The MESL data uniquely provides an evidence based benchmark against which to assess the adequacy of minimum rates of pay, and shines a light on the extent to which individuals and households can afford a standard of living which enables participation in the social and economic norms of Irish society.

The value of this evidence based measure which is grounded in the lived experience of households has seen great growth in the multiplicity of uses and applications of this data in Ireland, to assess the minimum expenditure needs and income adequacy for a wide range of household compositions.

¹ VPSJ (2015), MESL Annual Update. Published on www.budgeting.ie

- › In 2012 the VPSJ, in collaboration with Trinity College Dublin, developed *A Minimum Income Standard for Ireland*. This study established the model to calculate the gross income required to meet the expenditure which allows for an MESL. The MIS model has been updated by the VPSJ each year to take account of any relevant changes in the tax and social welfare system in Ireland.
- › In 2013 the VPSJ worked with the Insolvency Service of Ireland to adapt the MESL expenditure data as the basis of the guidelines on Reasonable Living Expenses.
- › In 2014 the VPSJ's MESL expenditure data and MIS income model provided the basis for the establishment of the national Living Wage rate.

More detailed information on the MESL data and research is available through the VPSJ's Budget Standards research website, www.budgeting.ie, which provides the latest Expenditure and Income data, working and technical papers, and research reports. The VPSJ's Minimum Income Standard calculator, www.MISc.ie, may also be used to calculate the minimum income requirements of household types in specific scenarios.

INADEQUACY OF THE NATIONAL MINIMUM WAGE

The MESL research has repeatedly found that the National Minimum Wage rate, of €8.65, does not provide the basis of an adequate income for multiple household compositions. This fact was highlighted for a range of household compositions in the VPSJ's previous submission to the Low Pay Commission, using 2014 data². It continues to be the case in 2015, when the annual MESL update found that the NMW did not provide an adequate income for many household compositions, primarily due to the cost of housing, in particular private rented accommodation, and private childcare.

Focusing on a single adult household, the NMW provided for 78% of the MESL expenditure need. This is based on full-time employment (37.5 hours) and living in private rented accommodation in Dublin, paying 90% of the average rent for a one-bed dwelling. The total cost of an MESL, including housing, is €406 per week for this household type in 2015. The net income from the NMW is €316.

In 2016 the NMW rate will increase to €9.15 per hour, this combined with changes to the USC, will see net income from full-time NMW employment rise by €16 per week to €332 per week. Despite this increase in net income, this household type will continue to have an inadequate income from the NMW, with a shortfall of over €70 per week (based on the 2015 MESL expenditure need).

THE LIVING WAGE

The full rate of the National Minimum Wage does not provide basis of an adequate income for a single person in full-time employment. It is for this reason that the national Living Wage rate, €11.50 per hour, has been produced. The Living Wage is the average gross salary which will enable full-time employed adults (without dependents) across Ireland to afford a socially acceptable minimum standard of living.

² VPSJ (2015), Minimum Essential Standard of Living & National Minimum Wage Inadequacy. Published on www.budgeting.ie

Unlike the National Minimum Wage, the Living Wage is an evidence based rate of pay which is grounded in social consensus. It is derived from Consensual Budget Standards research, which establishes the cost of a Minimum Essential Standard of Living in Ireland today.

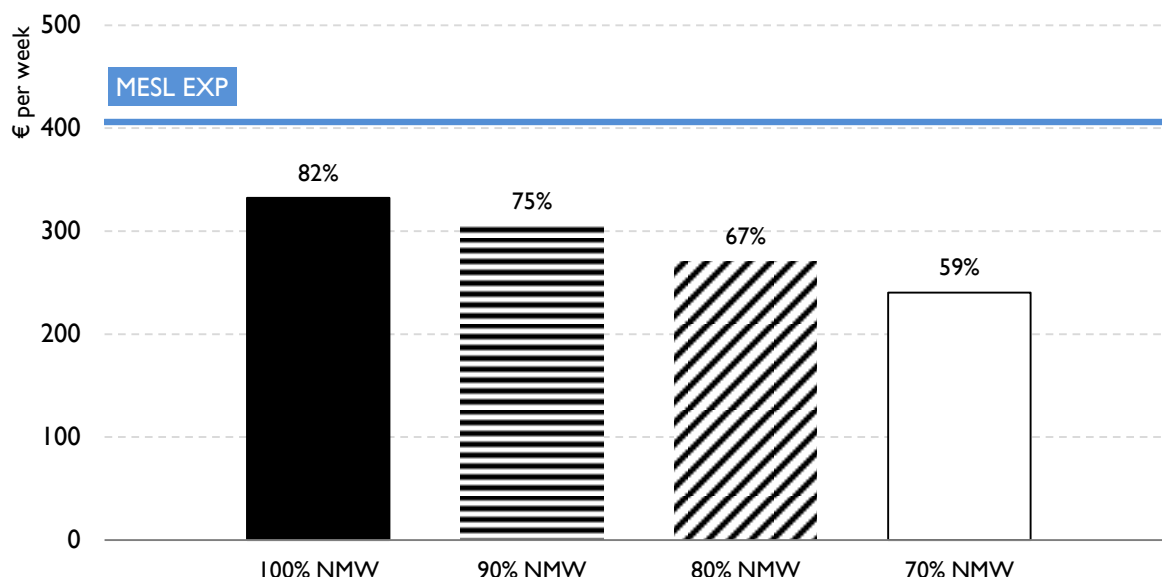
The Living Wage is calculated as the average gross salary required for a Single Adult, working 39 paid hours per week, to afford a minimum acceptable standard of living across Ireland.

SUB-MINIMA RATES

FULL-TIME

The 2016 national minimum wage rate meets only 82% of the cost of an MESL for a single adult household type, when working full-time and living in Dublin. The sub-minima rates of 70%, 80% and 90% of the NMW fall further short of the net income required for an MESL, as illustrated in Graph 1. The sub-minima rates meet only 59% to 75% of the MESL expenditure required for a single individual to live independently and have an adequate minimum standard of living³.

Graph 1 Full-Time Net Income as Per Cent of Single Adult MESL Expenditure Need



To afford the full MESL expenditure need an individual on the full NMW rate would need to work an average of 53.55 hours per week. An individual on the 90% rate would need to work 59.47 hours, while the 80% rate requires 66.94 hours per week and the 70% rate requires 76.44 hours per week.

	100% NMW	90% NMW	80% NMW	70% NMW
Hours Required	53.55	59.47	66.94	76.44

It is not plausible to expect hours such as these to be worked, and furthermore it is unlikely that such hours would be available particularly to those in younger age-groups and in minimum wage employment.

³ Income calculations are based on full-time employment, 37.5 paid hours per week, and 2016 income tax, PRSI & USC rates. The adequacy of the net salary is assessed against the 2015 MESL expenditure need for a Single Adult household in Dublin. See Table 1 for further details.

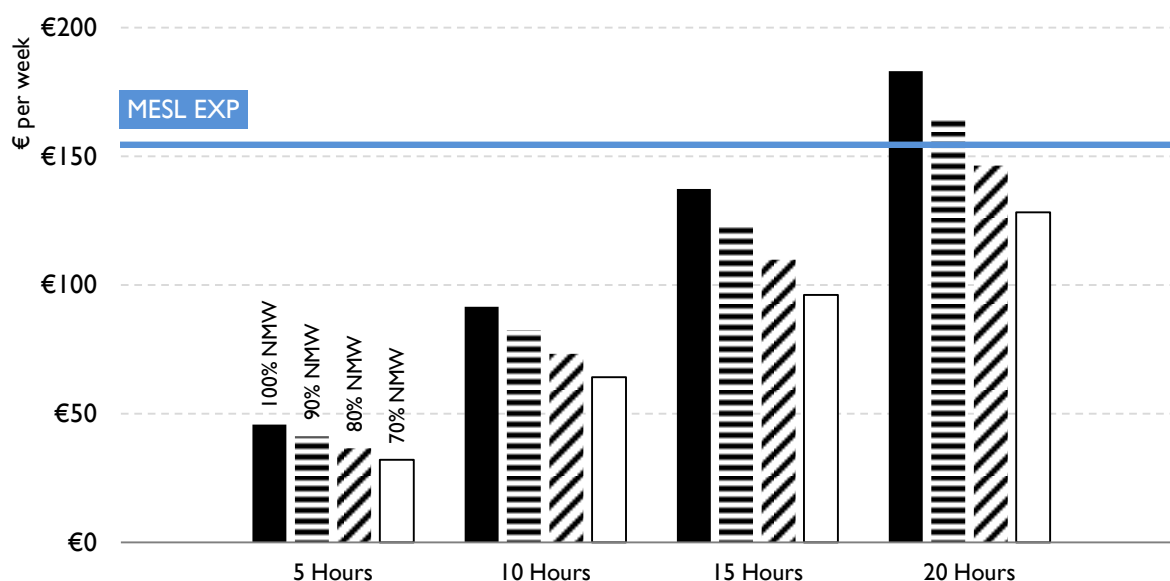
The recent report on Zero Hour Contracts found that younger people (15-24 age category) have the highest rate of constantly variable part-time hours and regularly work 1-8 and 9-18 hours (O’Sullivan et al, 2015: 28). Furthermore, recent research has also found that minimum wage employment is concentrated in the under-30 age group, and that the likelihood of minimum wage employment is higher for those in low hour employment (less than 20 hours) (Collins, 2015).

LIVING IN THE FAMILY HOME

The MESL data includes the expenditure required for a young adult living in the family / parental home. This data was first established in 2012⁴ and has been updated annually in line with the overall MESL dataset. The expenditure needs are based on the direct costs for an adult living in this scenario, and so include the costs directly attributable to the individual (for example the cost of food, clothing, personal care, transport, etc.) but does not include housing costs such as rent or home heating.

In 2015 the core MESL for a young adult living in the family home is €171.90 per week. If working full-time, the sub-minima rates will provide a net income in excess of this MESL need (between €68 and €132 above the MESL requirement⁵). However, as demonstrated above this discretionary income in excess of the MESL need is not enough to enable a full-time employed adult to live independently and have an MESL.

Graph 2 Part-Time Net Income, by Hours Worked & NMW Rate



As low hour minimum wage employment is most prevalent in younger age groups, the adequacy of the NMW sub-minima rates is assessed for low hour employment (5 to 20 hours per week) in the context of the MESL needs of a young adult living in the family home. Graph 2 illustrates the findings, demonstrating that 5 to 15 hours of employment fails to provide an adequate income in all cases. For example, with 10 hours employment the sub-minima rates leave a shortfall of €72 to €90

⁴ Collins, M., Mac Mahon, B., Weld, G., Thornton, R., 2012. *A Minimum Income Standard for Ireland*. Dublin: The Policy Institute.

⁵ See Table 2 for further details

per week. In the cases illustrated, only the full rate of the NMW and the 90% rate can provide an adequate income at 20 hours of employment⁶.

	100% NMW	90% NMW	80% NMW	70% NMW
Hours Required	16.94	18.81	21.17	24.18

The level of income inadequacy decreases as working hours increase and between 19 and 24 hours of employment are required to provide for an MESL when living in the family home.

CONCLUSION

If the rate of the National Minimum Wage (and sub-minima rates) is to be evidence based then adequacy must be a primary consideration in the setting of these rates of pay. The MESL data provides a unique evidence based benchmark for the assessment of minimum rates of pay, and forms the basis of the Living Wage calculations. The data has repeatedly demonstrated the inadequacy of the current €8.65 rate. While the increase to €9.15 in 2016 is welcome, this step alone will not enable individuals and households earning the NMW to afford a minimum essential standard of living.

Individuals earning the minimum wage, or sub-minima rates, must forego items and services regarded as essential for taking part in Irish society, in order to make ends meet. The data presented in this submission has demonstrated that a single individual in 2016 would need to work over 53 hours per week on the NMW to afford an MESL, if earning a sub-minima rate the hours needed to enable independent living rise as high 76 hours per week.

As minimum wage employment and low hours are commonly experienced by those in younger age-groups, the submission also examines the position of young adults in this scenario. As full-time NMW employment does not provide for an MESL when living independently, the situation of a young adult continuing to live in the family home is examined. It is found that the 90% sub-minima rate can provide for an MESL in this context, with 19 hours of employment. However, the affordability of this minimum essential standard of living comes with the caveat of an adult forgoing independence and full adulthood, as the individual must continue to rely on the indirect support of family & parents by continuing to reside in the family home rent free.

The appropriateness of minimum rates of pay which do not enable an individual in full-time employment live independently and afford the requirements of an MESL must be questioned.

⁶ See Table 3 for details of the 20 hour employment scenarios

Table 1 Single Adult MESL Expenditure Need & NMW Income Adequacy

	2015 NMW	2016 NMW	90% NMW	80% NMW	70% NMW
	Full-Time €8.65	Full-Time €9.15	Full-Time	Full-Time	Full-Time
MESL Core ⁷	225.19	225.19	225.19	225.19	225.19
Housing, 90% Avg Dublin Rent	180.72	180.72	180.72	180.72	180.72
Total	405.91	405.91	405.91	405.91	405.91
NMW SALARY					
Gross Salary	324.38	343.13	309.00	274.50	240.38
Income Tax	1.38	5.13	...	...	...
USC	6.73	5.67	4.65	3.62	...
PRSI	...	...	...	...	...
Net Salary	316.27	332.33	304.35	270.89	240.38
Medical Card	FULL	FULL	FULL	FULL	FULL
INCOME ADEQUACY					
(Net Income – Expenditure Need)	Inadequate -89.64	Inadequate -73.58	Inadequate -101.56	Inadequate -135.02	Inadequate -165.53

Table 2 Young Adult in Family Home MESL Expenditure Need & NMW Income Adequacy

	2016 NMW	90% NMW	80% NMW	70% NMW
	Full-Time €9.15	Full-Time	Full-Time	Full-Time
MESL Core ⁸	171.90	171.90	169.79	169.79
Housing	...	...	...	...
Total	171.90	171.90	169.79	169.79
NMW SALARY				
Gross Salary	343.13	309.00	274.50	240.38
Income Tax	5.13	...	...	...
USC	5.67	4.65	3.62	2.31
PRSI	...	...	...	...
Net Salary	332.33	304.35	270.89	238.07
Medical Card	None	None	GP Visit	GP Visit
INCOME ADEQUACY				
(Net Income – Expenditure Need)	Adequate 160.42	Adequate 132.45	Adequate 101.10	Adequate 68.28

⁷ 2015 MESL Core Costs adjusted for effect of secondary benefits (e.g. Medical Card), and personal costs associated with employment scenario

⁸ 2015 MESL Core Costs adjusted for effect of secondary benefits (e.g. Medical Card), and personal costs associated with employment scenario

Table 3 Young Adult in Family Home MESL Expenditure Need & 20 Hours NMW Employment

	2016 NMW	90% NMW	80% NMW	70% NMW
	20 Hours €9.15	Full-Time €9.15	Full-Time €9.15	Full-Time €9.15
MESL Core ⁹	154.38	154.38	154.38	154.38
Housing	...	...	...	...
Total	154.38	154.38	154.38	154.38
NMW SALARY				
Gross Salary	183.00	164.80	146.40	128.20
Income Tax	...	...	...	...
USC	...	...	...	...
PRSI	...	...	...	...
Net Salary	183.00	164.80	146.40	128.20
Medical Card	FULL	FULL	FULL	FULL
INCOME ADEQUACY				
(Net Income – Expenditure Need)	Adequate 28.62	Adequate 10.42	Inadequate -7.98	Inadequate -26.18

⁹ 2015 MESL Core Costs adjusted for effect of secondary benefits (e.g. Medical Card), and personal costs associated with employment scenario

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