WHEN THE LIVING WAGE IS NOT ENOUGH

An MESL Working Paper

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DISCLAIMER

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The contents of the paper are not attributable to the Minister for Social Protection or the Department of Social Protection.

INTRODUCTION

The VPSJ's MESL research has repeatedly demonstrated the inadequacy of the National Minimum Wage (NMW) for Single Adult households and many household compositions with children, in a wide array of housing and employment scenarios. In conjunction with benchmarking the inadequacy of the NMW against the cost of an acceptable standard of living, the Minimum Income Standard approach shows the range of scenario & household specific gross salary rates which would be required to enable an MESL.

The Living Wage for the Republic of Ireland is calculated by the VPSJ's Minimum Essential Budget Standards Research Centre, on the basis of the MESL data and MIS approach – which are integral to the calculation of the rate. The national rate is calculated following the approach first set out in 2014 in collaboration with the other members of the Living Wage Technical Group and detailed in the Living Wage Technical Document.

The Living Wage is calculated as the average gross salary required for a Single Adult, in full-time employment, to afford a minimum acceptable standard of living across Ireland. In conjunction with the Living Wage rate the income needs of a set of family household compositions is also calculated, this set of 'Family Living Incomes' demonstrates the additional and different needs of households with children.

This paper aims to add to the Living Wage through examining what is needed in addition to the Living Wage for family households. It is not realistic, reasonable, nor desirable to have different rates of pay for different household compositions. In calculating the MIS gross salary needs of the six family household compositions, the aim is to highlight any shortcomings of the current in-work supports, demonstrating where they may fail to provide an acceptable minimum standard of living for children in households with low pay.

The Living Wage rate is €11.50 in 2016; 25% above the current National Minimum Wage (NMW) of €9.15 per hour. Despite this, it is less than what many households with children require to enable an MESL. In examining where the Living Wage rate is inadequate for households with children, it is notable that when compared to the position of the household income from the NMW, a 25% increase in the gross rate sees household income change by a much smaller margin. Furthermore, in a number of counter-intuitive cases household income on the Living Wage is lower than an equivalent household earning the minimum wage.

While the final MIS gross salary need of the households is greatly affected by the cost of housing and childcare, and the overall cost of an acceptable minimum standard of living; the inadequacy of not just the NMW but also the Living Wage indicates shortcomings in how the tax and social welfare system support family households in lower paid employment.

The paper presents an analysis of the household income, with increments of gross salary from the NMW to the Living Wage (and above), highlighting the degree to which additional earnings are taxed away (through increased income taxes and withdrawal of in-work social welfare supports), and where crucial income cliffs and poverty traps exist.

As such the findings of the paper will add to the existing MESL research which has consistently demonstrated the cost of an acceptable minimum standard of living, and in particular the impact of childcare and housing costs on households' minimum income and expenditure needs.

MINIMUM ESSENTIAL STANDARD OF LIVING

The MESL research establishes a negotiated social consensus on what people believe is required for households to have a minimum, but socially acceptable, standard of living. The data specifies the cost of the minimum required to live and partake in the social and economic norms of life in contemporary Ireland at a standard of living which members of the public agree nobody should be expected to live below.

The MESL translates these concepts and ideals into a practical measure, providing 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 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.

The MESL data examined in this paper is based on the 2016 MESL expenditure needs data, and all income calculations apply 2016 rates of tax and social welfare.

HOUSEHOLD COMPOSITIONS

The MESL data defines the expenditure and income required for a socially acceptable minimum standard of living for 90% of household compositions in Ireland. The data differentiates the needs of households without children, and One and Two Parent households with children in four distinct age-groups.

Table 1 Family Living Income Household Compositions

Household		Child Age Groups
Two Parents	1 Child	Infant
Two Parents	2 Children	Pre-School, Primary
Two Parents	3 Children	Infant, Pre-School, Primary
Two Parents	4 Children	Two Primary, Two Secondary Level
One Parent	1 Child	Primary *(Under 7)*
One Parent	2 Children	Pre-School, Primary

The set of Family Living Income household compositions were chosen to represent the most commonly found compositions of one or two adults households and children (under 19), and to demonstrate the range of additional and different minimum expenditure needs of varying child age-groups. [i]

MESL EXPENDITURE NEED

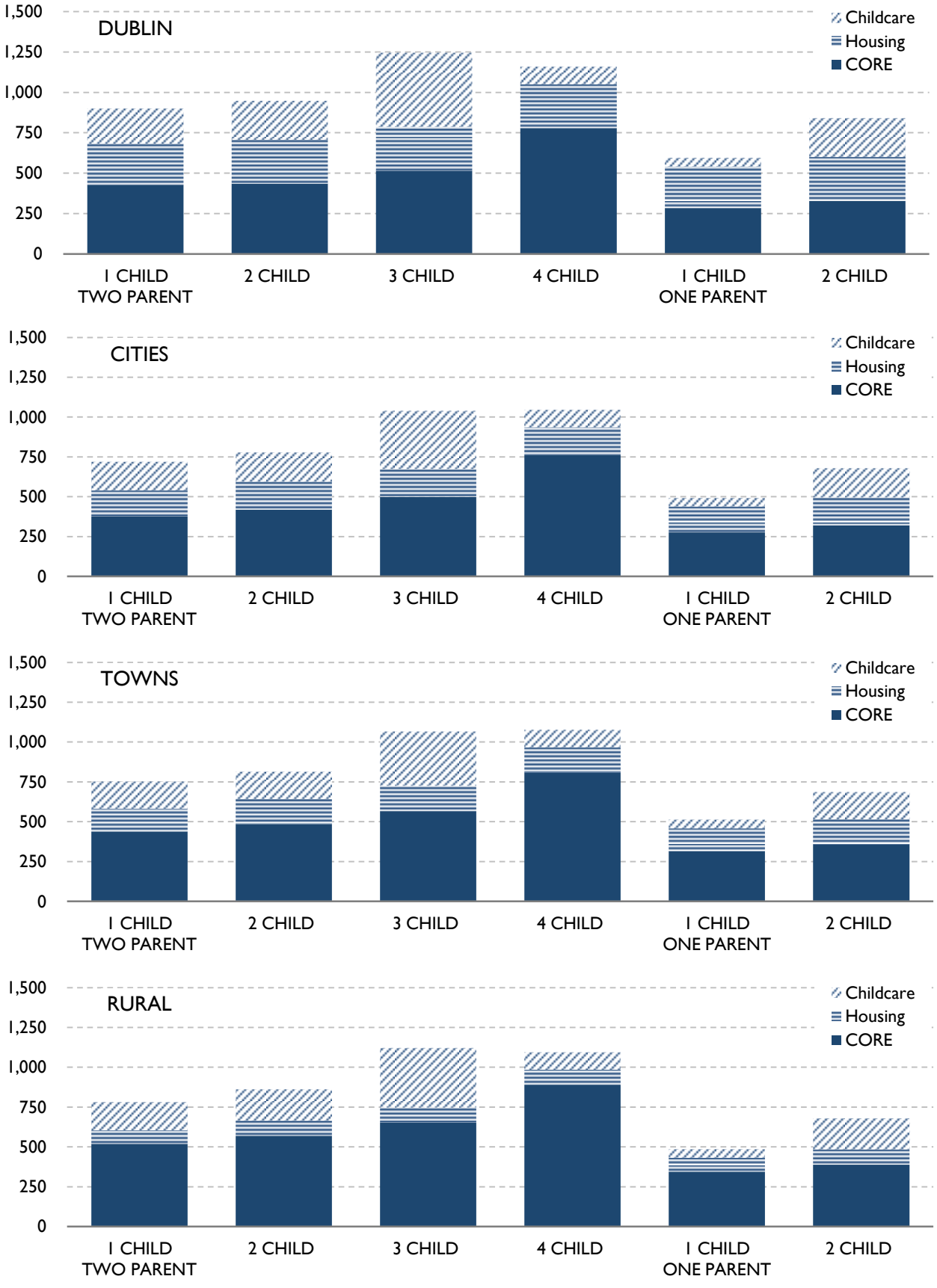
The average weekly cost of an MESL is illustrated in GRAPH 1 and summarised in the table below, for the six family household compositions, when based in each of the four regions defined in the Living Wage calculations[ii].

The Minimum Essential Standard of Living core costs include categories such as food, clothing, health, household energy, education, transport and insurance. Housing costs, in this case rent, and childcare costs are listed separately due to the significance of these categories in the overall expenditure need. The listed MESL core cost also reflects the effect of any secondary benefits, primarily Medical Card eligibility, when the household is earning the required Minimum Income Standard gross salary.

Table 2 MESL Expenditure Need, per week, by Household Composition and Region

		TWO PARENT				ONE PARENT	
		1 CHILD	2 CHILD	3 CHILD	4 CHILD	1 CHILD	2 CHILD
DUBLIN	MESL Core	427.32	435.72	515.89	779.04	284.78	328.91
	Housing	255.36	270.44	270.44	270.44	255.36	270.44
	Childcare	217.56	241.15	458.71	109.61	54.81	241.15
	Total MESL	900.24	947.31	1,245.05	1159.09	594.95	840.50
CITIES	MESL Core	377.39	419.00	499.18	760.97	276.43	319.88
	Housing	161.49	175.22	175.22	175.22	161.49	175.22
	Childcare	181.29	184.61	365.91	109.61	54.81	184.61
	Total MESL	720.17	778.83	1,040.30	1,045.80	492.72	679.71
TOWNS	MESL Core	438.92	484.70	566.68	808.78	315.49	357.13
	Housing	143.30	158.39	158.39	158.39	143.30	158.39
	Childcare	170.72	171.13	341.86	109.61	54.81	171.13
	Total MESL	752.94	814.23	1,066.92	1,076.78	513.60	686.65
RURAL	MESL Core	517.51	568.87	651.37	888.83	344.13	387.23
	Housing	86.70	95.84	95.84	95.84	86.70	95.84
	Childcare	177.59	196.43	374.02	109.68	54.84	196.43
	Total MESL	781.80	861.14	1,121.22	1,094.35	485.67	679.49

Graph 1 MESL Expenditure Need, per week, by Household Composition and Region



REGION

The MESL urban dataset applies to Dublin, Cities and Towns, and rural data for the Rural region. The Rural MESL dataset includes the additional and different expenditure needs of households in rural areas, small villages and towns, the primary differences are in the areas of transport and household energy costs.

Transport costs are based on the use of public transport in Dublin and the other Cities, and the use of a car in Towns and Rural areas – where the level of public transport available does adequately meet minimum needs.

MESL core costs are highest in the Rural area for each of the household compositions. Two factors primarily contribute to this. Firstly the higher cost of household energy, as home heating costs are based on the use of oil rather than gas. Secondly, transport costs are highest in the rural area as a car, and associated costs, are required as the availability of public transport is not adequate to meet minimum needs. The transport costs in the Towns region are also based on a car, but the overall minimum running costs are higher for Rural households.

Significantly higher housing costs[iii], and the higher childcare costs which tend to be found in Dublin, offset lower core MESL costs for Dublin based households. Consequently the total MESL cost is highest in Dublin for each household composition, despite lower transport costs (as a car is not a minimum need) and lower home heating costs (due to access to gas heating).

CHILDCARE

The income scenarios are based on all adults in the household undertaking full-time employment, therefore full-time childcare costs are included in the budgets. The MESL research established the need for childcare for children below second level age, when parents in full-time employment. The cost included for pre-school age children is net of the ECCE scheme[iv].

Childcare costs are a significant contributor to the overall MESL expenditure need. For compositions with younger children, infant and pre-school age, childcare costs account for between a quarter and a third of the MESL expenditure need.

HOUSEHOLD COMPOSITION

The six household compositions are amongst the most common of households with children (under 19) and represent the variation in need across the range of child age-groups.

A child's needs vary with age and to reflect this the MESL data defines four child age-groups and identifies the direct weekly cost of an MESL for a child at each stage.

The cost of a child's MESL is higher in infancy, declining at pre-school age and then rising as children grow older. The cost is highest at second level age, as an adolescent child's MESL cost is more than 2 ½ times that of a pre-school age child. However, the cost of childcare has a significant impact on the cost of an MESL, with full-time childcare makes infancy the most expensive stage, with costs declining for each subsequent age-group.

As would be expected, MESL expenditure need grows with household size. The highest MESL expenditure need is found with the Two Parent household with three and four children. The higher childcare costs associated with the younger age-groups in the three child household results in the highest MESL need for this composition, when in Dublin. In urban areas outside Dublin, the four child household with children in older age-groups have the highest MESL expenditure needs.

HOUSING

The MESL expenditure data does not specify a housing cost, rather when examining a particular scenario an appropriate housing cost is included in the overall minimum expenditure budget.

Table 3 90% of Monthly Average Rent, by Region & Dwelling Size[v]

	Two Bed	Three Bed
Dublin	1106.56	1171.91
Cities	699.77	759.27
Towns	620.96	686.35
Rural	375.68	415.29

The housing costs included in scenarios in this paper are based on 90% of the average monthly rent of an appropriately sized dwelling. For household compositions with one child, the cost is based on a two-bed dwelling. For compositions with more than one child the cost is based on a three-bed dwelling. The Private Residential Tenancies Board (PRTB) average rent index is the source for the housing costs.[vi]

As stated above, the higher cost of rent in Dublin results in the Dublin based household compositions having the greatest minimum expenditure to enable the same minimum acceptable standard of living as in other regions of the country. Rents for households outside of Dublin are between one and two thirds of the rent in Dublin.

LIVING WAGE INCOME

The impact of housing costs, housing tenure, and high childcare costs have been emphasised in the annual MESL Update Reports and the focus of a number of MESL Working Papers, repeatedly demonstrating the contribution of these issues to minimum wage inadequacy and the level of MIS salary needed as a result. The focus in this paper is on in-work social welfare supports, and the degree to which the structure of these supports effects the adequacy of the Living Wage for households with children.

Having established the minimum expenditure needs of the set of family household compositions, this section now examines the overall household income for each composition when earning the Living Wage, benchmarks the adequacy of the Living Wage against the MESL expenditure need and shows the MIS gross salary requirement for each household composition, in each of the four regions.

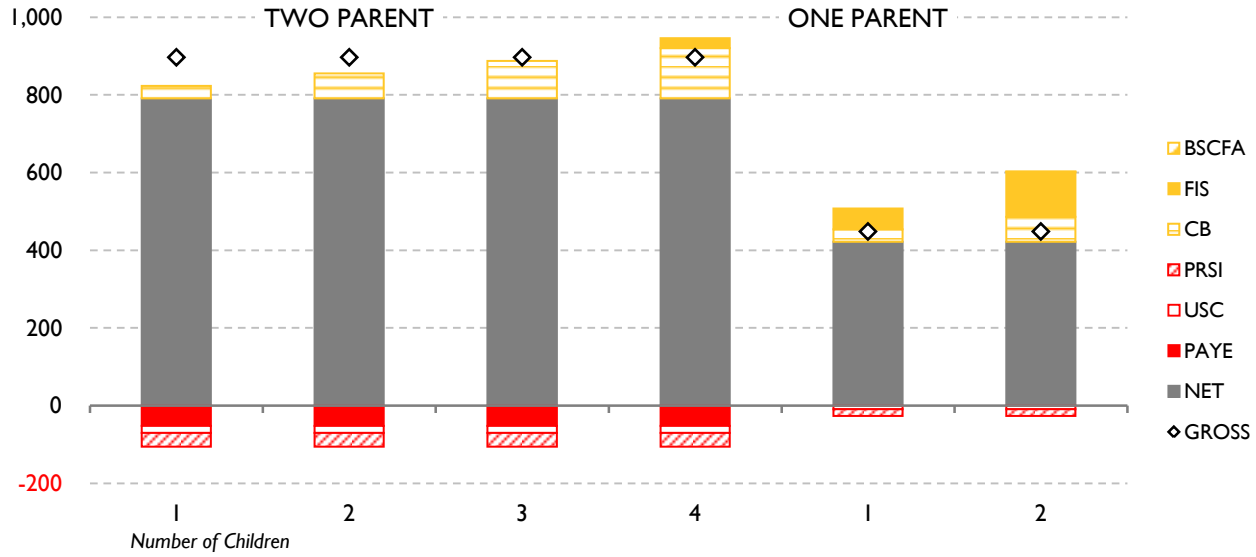
HOUSEHOLD INCOME WHEN EARNING THE LIVING WAGE

The Living Wage is presented as an hourly rate for ready comparison to the National Minimum Wage (NMW). However the rate is calculated as the average gross income required for a single adult, without dependents, to have an acceptable minimum standard of living, when in full-time employment. The hourly rate of €11.50, is based on a full-time 39 hour week, and so equates to a gross salary of €448.50 per week and €23,345 per annum.

The net salary when earning the Living Wage for a single adult is €395 per week[1], with income tax (PAYE), USC and PRSI combining to an effective tax rate of 12%.

In the case of a two adult household both employed full-time and earning the Living Wage, joint net salary is €791. For a one parent household in full-time employment, the net salary from the Living Wage is €421. When earning the Living Wage effective tax rate (PAYE, USC and PRSI) is 12% for the Two Parent household compositions and 6% for the One Parent household compositions.

Graph 2 Living Wage Household Income by Household Composition



Total household income for households with children is comprised of net salary and social transfers. The graph illustrates the total household income, after tax and including social transfers, for each of the six household compositions when in full-time Living Wage employment.

The social welfare supports include Child Benefit in all cases, and may also include Family Income Supplement and the Back to School, Clothing and Footwear Allowance. However, as the full-time gross Living Wage salary of €448.50 is above the One-Parent Family Payment (OFP) gross income cut-off of €425, the One Parent households are not eligible for this support (or the Fuel Allowance)

[1] Medical Card status effects the rate of Universal Social Charge payable. Where a single adult earning the full-time Living Wage has a full medical card (for example due to high housing costs) a reduced rate of USC is levied, where this is not the case the full rate of USC is levied. The actual net salary earned from a full-time Living Wage may vary from €393.25 to €395.53 per week.

in the Living Wage income scenario presented. The consequences of this are examined in more detail below.

In a situation where the total salary coming into a household equates to two Living Wages, a Two Parent household with one to three children will not qualify for Family Income Supplement. The only applicable social welfare payment, when earning the Living Wage, is Child Benefit. Child Benefit is paid monthly on a per child basis; the total support contributes 4% of household income to a two parent household with one child, rising to 11% for a household with three children.

Family Income Supplement (FIS) and Child Benefit (CB) make a notable contribution to household income in the case of the Two Parent four child household and the two One Parent household compositions. Social transfers amount to 16% of overall income for the Two Parent household with four children, and 17% to 30% for the One Parent household compositions.

When the social welfare payments are factored in the overall effective tax rate for each of the households is reduced, as payments such as Child Benefit and FIS offset a portion of the tax paid.

For the compositions not in receipt of FIS (Two Parent with 1 to 3 children) the overall effective tax rate is between 1% and 8%.

For the household compositions in receipt of FIS, the combination of social welfare payments offsets taxation and results in a total household income which is in excess of gross salary. In effect the Two Parent four child composition and both One Parent composition have a negative overall effective tax rate, when earning the Living Wage.

LIVING WAGE ADEQUACY & MINIMUM INCOME STANDARD NEED

Benchmarking the total household income from full-time Living Wage employment, including applicable social welfare payments against the cost of an MESL for the six family household compositions, in each of the four regions, results in 24 scenarios. Of the 24 scenarios the Living Wage would provide the basis an adequate income for seven of the family household compositions.

- Graph 3 benchmarks the adequacy of the Living Wage household income for the six compositions in the four regions.
- The Living Wage provides the basis of an adequate income in seven cases.
- In Dublin the Living Wage does not provide the basis of an adequate income for any of the household compositions.
- The Living Wage is also inadequate in situations where more than on child is in formal childcare.
- The inadequacy of the Living Wage income for larger household compositions demonstrates that the available in-work social welfare supports do not adequately provide for larger households dependent on one or two lower paid salaries.

Graph 3 MESL Expenditure Need and Living Wage Household Income

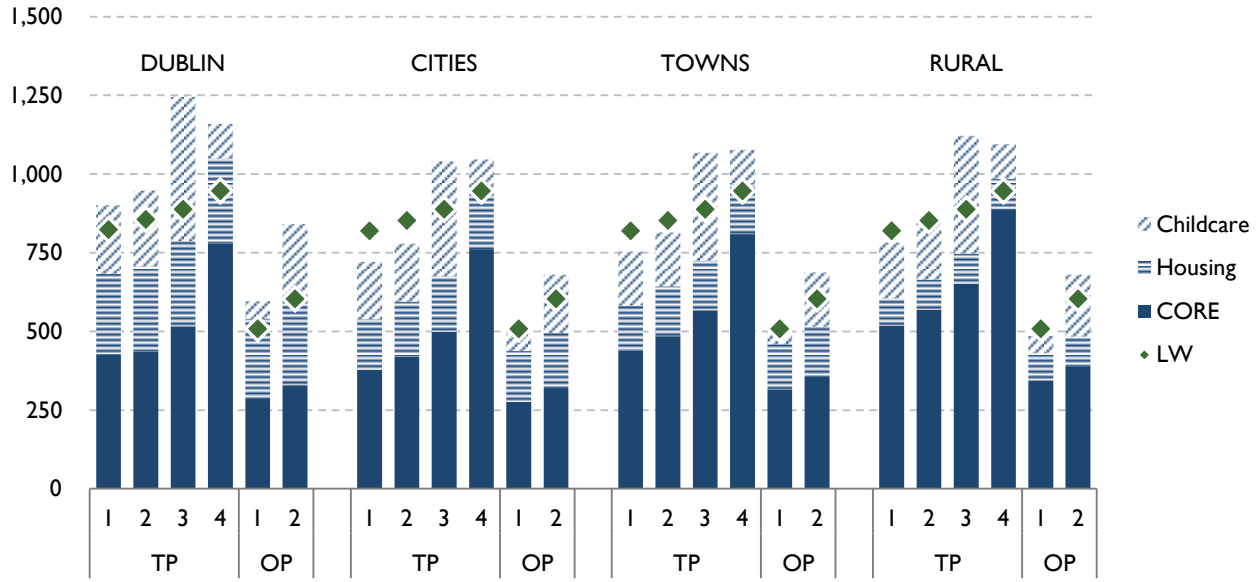


Table 4 Total Household Income (Living Wage) as Per Cent of MESL Expenditure Need

	TWO PARENT				ONE PARENT	
	1 CHILD	2 CHILD	3 CHILD	4 CHILD	1 CHILD	2 CHILD
DUBLIN	95.11%	90.33%	71.32%	85.86%	85.39%	71.77%
CITIES	108.56%	103.79%	85.36%	90.47%	103.11%	88.75%
TOWNS	108.82%	104.68%	86.83%	88.85%	98.92%	87.86%
RURAL	103.98%	98.97%	82.46%	87.30%	104.60%	88.78%

Table 5 MIS rates (per adult, per hour) compared to Living Wage rate

	TWO PARENT				ONE PARENT	
	1 CHILD	2 CHILD	3 CHILD	4 CHILD	1 CHILD	2 CHILD
MIS Need						
DUBLIN	13.05	13.15	18.25	15.95	16.35	25.75
CITIES	9.35	9.95	14.25	13.85	9.15	17.45
TOWNS	10.15	10.85	14.85	14.45	9.15	17.65
RURAL	10.85	11.75	15.85	14.75	9.15	17.45
Difference between Living Wage and MIS						
DUBLIN	+ 1.55	+ 1.65	+ 6.75	+ 4.45	+ 4.85	+ 14.25
CITIES	- 2.15	- 1.55	+ 2.75	+ 2.35	- 2.35	+ 5.95
TOWNS	- 1.35	- 0.65	+ 3.35	+ 2.95	- 2.35	+ 6.15
RURAL	- 0.65	+ 0.25	+ 4.35	+ 3.25	- 2.35	+ 5.95

MINIMUM INCOME STANDARD

In addition to measuring the adequacy of household income when earning the Living Wage, the MIS salary need is also calculated for all compositions. The MIS is the gross salary rate required in order for household income (net salary and social welfare) to adequately meet the MESL expenditure need of a given household. As with the Living Wage, the rate is presented as an hourly figure but is based on the full-time salary required by each adult in the household.[2]

The combination of housing costs, childcare costs, and the withdrawal of in-work supports make Living Wage income adequacy a bridge too far in the majority of cases, and result in households requiring rates of pay significantly above the NMW to enable an acceptable minimum standard of living.

- Table 5 presents the hourly MIS requirement for each case. It is notable that a number of household compositions require earnings that are significantly above both the National Minimum Wage and the Living Wage.
- Eight of the household compositions have a MIS which is below the Living Wage. Of those eight, three have an adequate income on the minimum wage.
- It must be noted that the three households with income adequacy on the minimum wage are One Parent and one child compositions. Of these three, one demonstrates income inadequacy when earning the Living Wage. This is examined in further detail in the next section.
- Fifteen of the compositions which require a gross salary above the Living Wage, have a MIS need which is notably above the Living Wage rate, and one requires in excess of double the Living Wage.
- It is likely that the tapering and withdrawal of in work social welfare supports is contributing to the high MIS rates required, when compared against the NMW and Living Wage.

When the withdrawal rates of social welfare supports such as Family Income Supplement (FIS) and One-Parent Family Payment (OFP) are too steep, significantly higher salaries may be required to secure a marginal increase in overall household income.

The next section of the paper shall examine the level of taxation and withdrawal of social welfare supports for each of the household compositions, with increments of income from the NMW to the Living Wage, and above.

[2] For more information on the MIS calculation see Appendix B.

ANALYSIS OF IN-WORK SOCIAL WELFARE SUPPORTS

The Irish social welfare system provides in-work supports on a targeted and means tested basis to households with children. The primary relevant supports are the Family Income Supplement and the One-Parent Family Payment. The structure of these supports tapers the rate of payment as salary increases.

It is argued that in-work social welfare supports work in conjunction with a minimum wage, to support family incomes, reduce inequality, and broadly speaking 'make work pay'. However, it is noted that where tax concessions or in-work supports are very focused on those on the lowest wages, there can be a disincentive to progress to higher paid employment, as an increase in salary results in very little increase in household income (OECD, 2015; Immervoll & Pearson, 2009).

Therefore, appropriately designed in-work benefits can enhance the effectiveness of minimum rates of pay, by overcoming the limitations of a simple rate of pay to provide adequate household income for varying family structures (OECD, 2005).

Wage rates cannot (and should not be expected to) take account of household composition, and the number of people dependent on a wage. However, social welfare supports can, and the role of the in-work supports such as FIS and OFP examined in this section, should be to support families with low paid employment to have an acceptable minimum standard of living.

The Living Wage is based on the concept that work should enable a decent standard of living, and that low pay employers should take a greater responsibility for ensuring the living standards of their employees. However, families with children in low paid employment need additional assistance, and it is not reasonable to expect wages alone to meet the minimum needs of households in this position. It is vital that the level of in-work social welfare support enables minimum rates of pay to stay at feasible levels, while ensuring a Minimum Essential Standard of Living is achievable for all families.

The analysis examines the METR for each household composition, comparing household income from full-time minimum wage employment to household income from full-time Living Wage employment. This establishes how much of the difference in gross salary would be 'taxed away', both through income taxes (PAYE, PRSI & USC) and the tapering and withdrawal of social welfare supports.

> "Marginal effective tax rates (METRs) measure how much of a given change in gross earnings, is taxed away through income tax, social security contributions and benefit withdrawals"
> OECD, 2005: 128

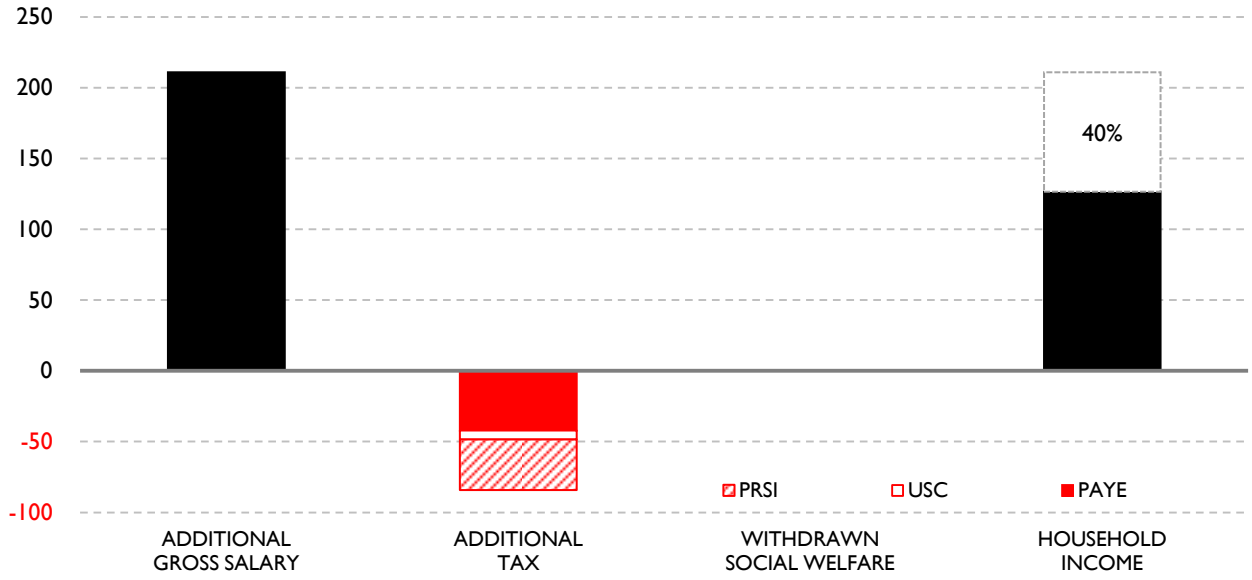
The following examines how household income changes as salary increases, examining the extent to which household would improve and move toward adequacy when earning the Living Wage compared to earning the minimum wage.

1 The calculations are based on tranches of €10, presenting the changes in household income and the METR for each €10 per week increase in gross salary (per adult) from the NMW to the Living Wage and above.
The results for each tranche are presented in the tables charts in Appendix A.

2 The following analysis summarises the detailed calculations, and focuses primarily on the change from earning the NMW to the Living Wage.

3 The difference between the weekly gross salary from the NMW and the Living Wage is approximately €100. To put the NMW to Living Wage METR in context a similar calculation is presented for the METR for a €100 change in salary at a higher income point.

TWO PARENTS, 1 CHILD & TWO PARENTS, 2 CHILDREN



A household with two full-time minimum wage incomes, and one or two children, will not be eligible for Family Income Supplement as the combined salaries are above the income limits for the support.

When earning the minimum wage the household compositions are liable for both PAYE and USC, at earnings slightly above the minimum wage PRSI comes into effect. With earnings up to the Living Wage both household compositions would be eligible for a full Medical Card, and thereby liable for the reduced rate of Universal Social Charge.

There are no means tested social welfare income supports for the household compositions to lose with increases in gross salary. Consequently, the Marginal Effective Tax Rate (METR) for these compositions is lower than those examined later in the paper.

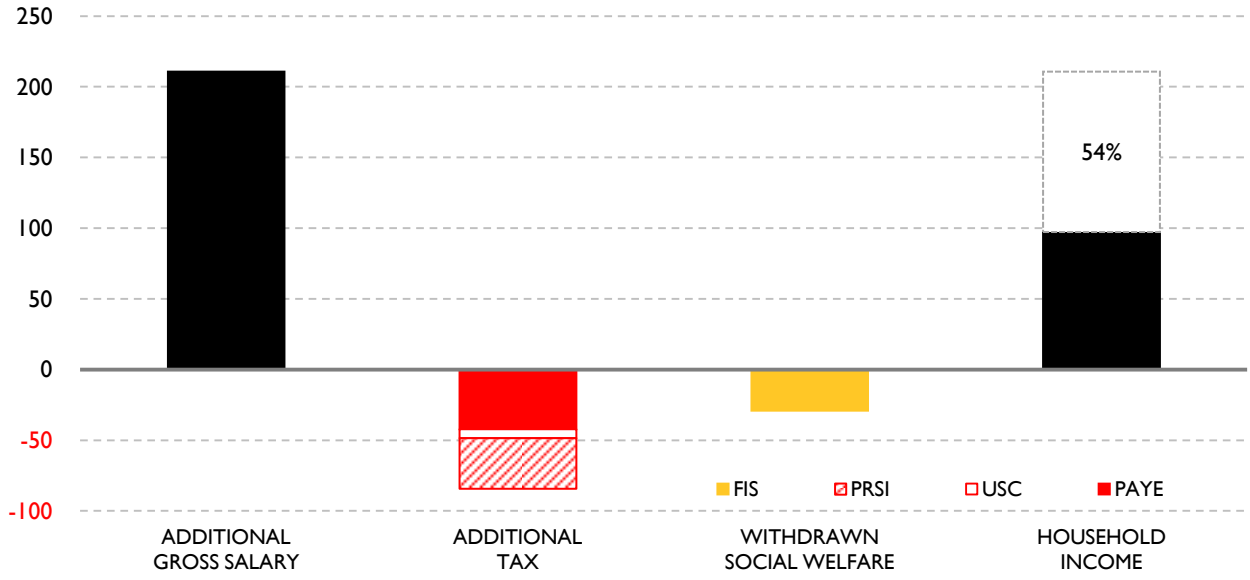
The METR on the change in gross salary from the minimum wage to Living Wage is 40%.

The METR for a similar sized change in gross salary from the Living Wage (€450 per week) to €550 per week, is 31%. The METR remains at approximately 30% for each incremental increase of salary from the €450 per week (Living Wage) until gross salary exceeds €650 per week. At that point the METR increases to 50%.

Rates of pay below the Living Wage are low pay salaries. The above demonstrates that the rate at which PAYE, PRSI and USC are introduced on low pay salaries creates a greater Marginal Effective Tax Rate for salaries between the minimum wage and the Living Wage, than for salaries from the Living Wage to approximately average earnings.

This demonstrates that there is a greater benefit to household earnings for increases above the Living Wage, than for increases from the minimum wage to the Living Wage, for these household compositions.

TWO PARENTS, 3 CHILDREN



When there are three children in the household the FIS household income threshold increases to €713 per week. This enables the household to qualify for a FIS payment of €29 per week, when earning the NMW.

The METR on the change in gross salary from minimum wage to Living Wage is 54%, as the effect of PRSI, PAYE and USC are compounded by the withdrawal of FIS.

FIS entitlement is lost for the household when gross earnings reach €390 per week (per adult). The withdrawal and loss of FIS is in effect an additional tax on this household. Consequently, the Marginal Effective Tax Rate of moving from earnings of €380 to €390 per week is 144%.

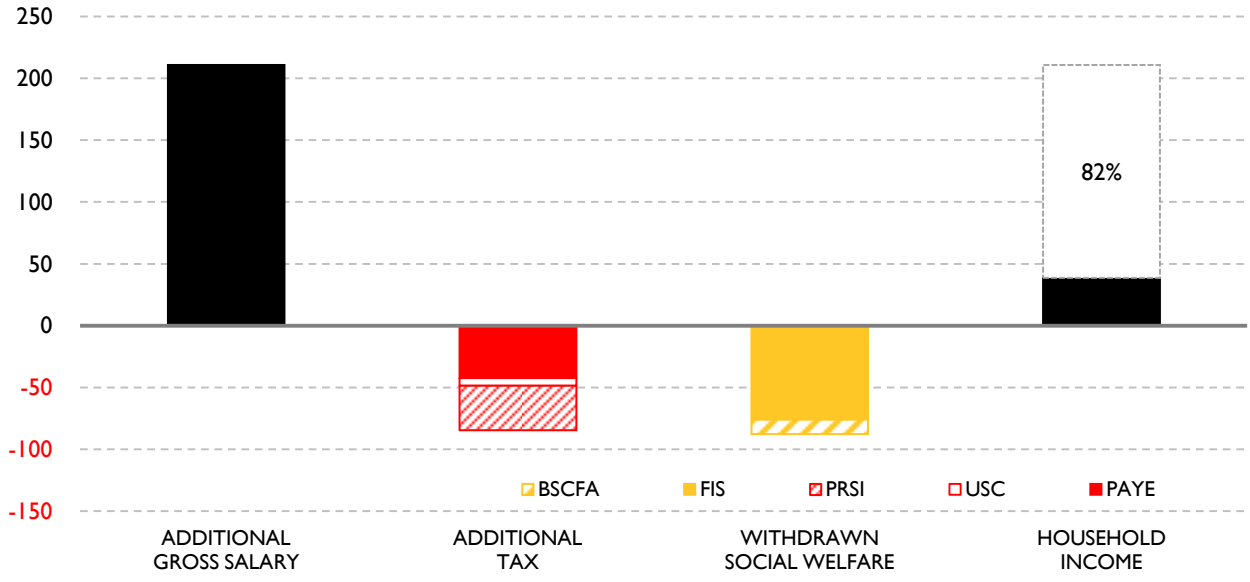
The METR for a similar €100 change in gross salary from the Living Wage (€450 per week) to €550 per week, is 27%. The rate is lower than with the previous household compositions, as this household would remain eligible for the reduced rate of USC (due to Medical Card entitlement[3]).

The proportion of additional earnings taxed away when moving from the Living Wage to €100 above the Living Wage, is half that of the proportion lost when gross salary changes from the minimum wage to the Living Wage.

Furthermore, the greatest METR applicable to higher rates of pay is 52%. Consequently, the marginal effective tax rate on a household rising from low pay to the Living Wage is higher than for a salary rates which are multiples of the Living Wage.

This again demonstrates that the path from minimum wage and low pay salaries is steeper than the marginal effective tax rates experienced on increases in salary further up the income scale.

TWO PARENTS, 4 CHILDREN



In a four child household the income threshold for FIS is €834. With dual full-time minimum wage employment this household composition would qualify for a weekly FIS payment of €102, and would also be eligible for the annual Back to School Clothing and Footwear Allowance, and a full Medical Card.

[3] Based on the Dublin scenario; the point where Medical Card eligibility is lost will vary on the specific scenario circumstances examined as housing, childcare and transport costs are part of the means test.

The tapering and withdrawal of social welfare supports, and the impact of PAYE, PRSI and USC, create a METR of 82% on the change in gross salary from the minimum wage to the Living Wage.

The METR is higher in this case due to the contribution of FIS when earning the minimum wage, and the steep withdrawal when earning the Living Wage. When the two adults are earning the Living Wage the support from FIS would taper to €26 per week, €76 less than a in scenario earning the NMW. The household would also be ineligible for the Back to School Clothing and Footwear Allowance.

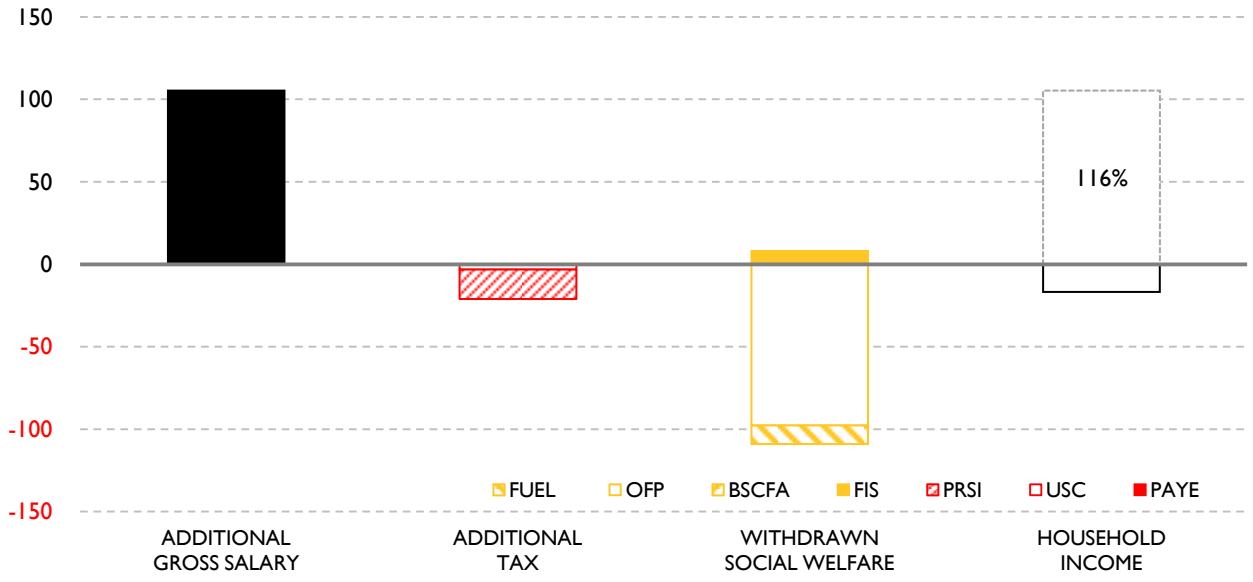
The METR for a similar €100 change in gross salary from the Living Wage (€450 per week) to €550 per week, is approximate 40%.

This household composition would retain only a fifth of the change in gross salary from the NMW to the Living Wage, but would retain three fifths of the change from €450 to €550 per week. Therefore the household would benefit by three times as much from the increase above the Living Wage, when compared to the increase from the minimum wage.

The high METRs demonstrated with this household composition are due to the tapering of FIS. In the progression of earnings from the NMW to the Living Wage, the METR at each €10 incremental increase in gross salary ranged from 67% to 85%. Additionally, at earnings slightly above the Living Wage (€480 per week) the household would not qualify for FIS. The loss of FIS would cause an METR of 127% when moving from €470 to €480 per week.

METRs of over 52% are exclusive to the lower end of the income scale, and do not exceed 52% for salaries which are above the thresholds for any social welfare supports.

ONE PARENT, 1 CHILD



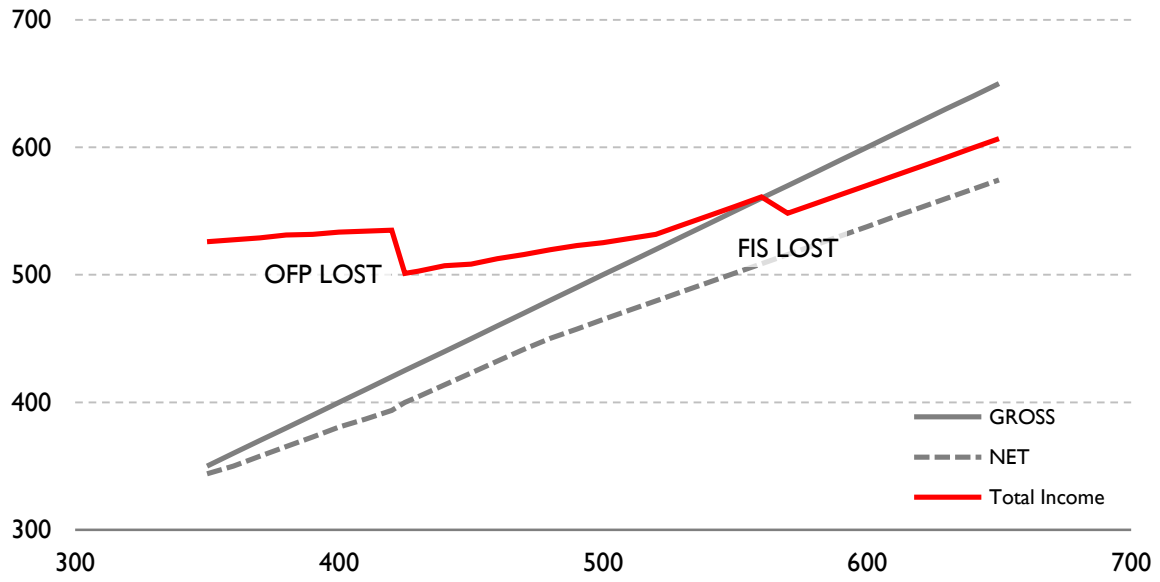
The One Parent household composition examined has a primary school child, aged under 7, and so would be eligible for the One-Parent Family Payment (OFP).

When in full-time NMW employment the household receive over a third (35.7%) of the total household income from social welfare supports (OFP, FIS, Fuel Allowance and Child Benefit).

The tapering and withdrawal of social welfare supports, and the impact of PAYE, PRSI and USC, create a METR of 116% on the change in gross salary from the minimum wage to the Living Wage. A household of this type earning the Living Wage will be worse off (by €16.78 per week) than the same household earning the minimum wage, due to the withdrawal of social welfare supports and liability for income taxes.

The excessive level of METR in this situation is due to the earnings cut OFP eligibility. The OFP is means tested payment, with a taper which reduces support as salary increases. However, when gross salary exceeds €425 per week eligibility is lost. While the level of FIS a household is entitled to will increase and offset some of the loss of OFP, earnings of between €425 and €500 per week result in a lower household income than when earning the minimum wage.

Graph 4 In-Work Social Welfare Withdrawals

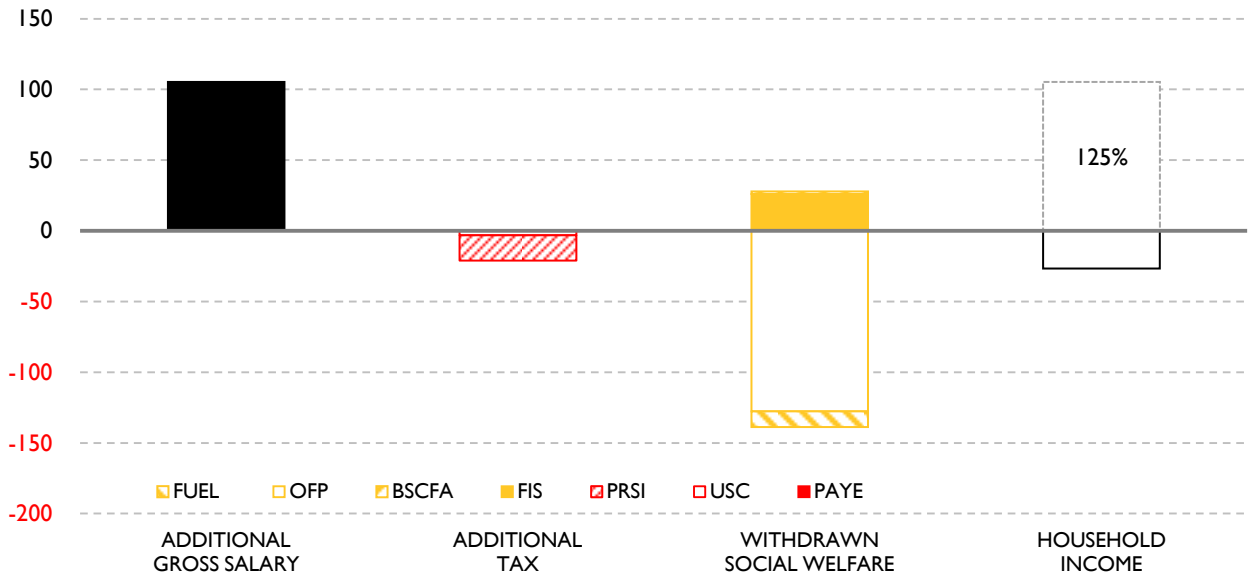


Graph 4 illustrates the progression of income and the consequence of the withdrawal of in-work supports. Each tranche of salary increase above the NMW, while retaining OFP, marginally improves household income, within an METR of between 79% and 94% at each step. However, when salary crosses the eligibility threshold for OFP, moving from €420 to €430, the METR is over 400%.

The incongruity of this situation is clearly demonstrated by this household composition in the Towns region. In this scenario the NMW would provide the basis of an adequate household income, meeting the MESL expenditure need and leaving a discretionary €11 per week in excess of

minimum need. The same composition, in a scenario of earning the Living Wage, would not have an adequate income despite having a gross salary €100 above the NMW. The steep withdrawal of OFP, and tapering of FIS result in a household income which is falls short of the MESL expenditure need.

ONE PARENT, 2 CHILDREN



This household composition would also be eligible for the OFP on the basis of ages of the children; and consequently demonstrates a similarly excessive METR as the previous composition.

In this case, with two children in the household the rate of OFP and FIS paid is higher, and the effect of the taper and withdrawal due to changes in gross salary is more severe. The METR on the change in gross salary from the minimum wage to the Living Wage is 125%.

Once again household earnings on the Living Wage are below the National Minimum Wage. FIS is payable when earning the Living Wage, and its continued tapering means the METR remains significantly above 50% until FIS eligibility is lost. For example the METR on a €100 change in salary from the Living Wage to €550 per week is 71%.

For both One Parent household compositions examined there is a short window at the low end of the salary scale, from minimum wage to less than €425 per week, where the METR is below 100% and an increase in gross salary results in a minor improvement in household income.

However, for the One Parent one child composition earnings between €425 and €500 per week result in a lower household income than when earning the minimum wage. And similarly for the two child composition, earnings between €425 and €550 per week result in a lower household income than when earning the minimum wage.

Effectively, with the exception of the OFP eligibility window, these household compositions face an METR in excess of 100% when moving from the National Minimum Wage to anything less than €500 and €550 per week, respectively.

MARGINAL EFFECTIVE TAX RATE IMPACT ON MIS

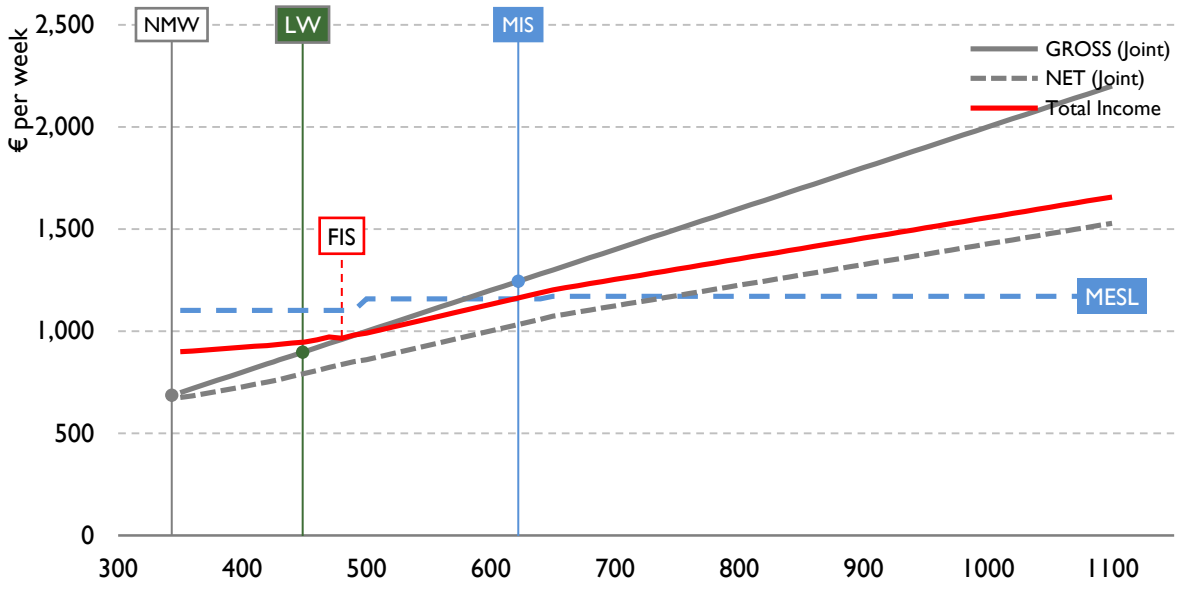
The steep Marginal Effective Tax Rates imposed on changes in salary from minimum wage through to Living Wage, and an exit from low paying employment result in little to no net gain in household income for the households examined, and indeed a worsening of the income position of the One Parent household compositions examined.

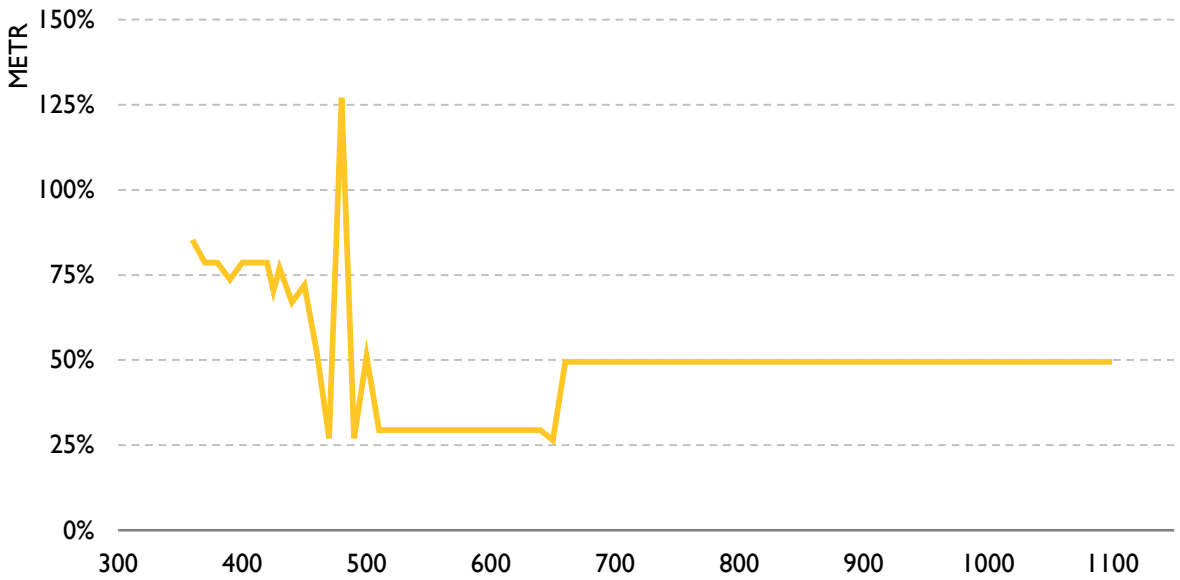
The METRs found at this low end of the income scale are notably in excess of the METR on significantly higher incomes. Moreover, where the METR approaches or exceeds 100% a significant poverty trap and barrier to escaping low pay is created.

The rate of tapering and withdrawal of in-work social welfare supports undoubtedly contributes to the high Minimum Income Standard gross salary needs, as there is little to no return to household income from increases in gross salary between the NMW and Living Wage.

The following examines in further detail the METR on increments of gross salary for the Two Parent and One Parent composition with the highest NMW to Living Wage METR, namely the Two Parent household with four children and One Parent household with two children. The households are examined in the context of the Dublin MESL expenditure needs, however the MIS needs of the compositions are notably above the minimum wage and Living Wage in all four regions.

TWO PARENTS WITH FOUR CHILDREN





- Earning the NMW, household income is €908 per week. When earning the Living Wage it is €946. A combined gross salary which is €210 above the NMW, results in a household income which is only €38 above that at the NMW.
- With each increment of salary above the NMW total household income improves slightly, but the tapering of FIS results in a very high METR at each step, and as seen the METR from the NMW to the Living Wage is 82%.
- When earning the Living Wage the household would be entitled to a FIS payment of €26 per week, compared to €102 when earning the NMW.
- The point where FIS is withdrawn (€480 per week, per adult) is 40% above the NMW, however household income is 6.5% (€64) above NMW household income.
- At a gross salary of €500 per week the household would not be eligible for a full Medical Card, and consequently not eligible for the reduced rate of USC. The METR on each tranche of income from €500 to €650 per week is 30%, rising to 50% at a gross salary of €660 per week.
- Income adequacy is reach at a MIS rate of €15.95 per week, €620 per week. This is 1.75 times the NMW and 1.4 times the Living Wage. The METR from the NMW to the MIS is 54%.

ONE PARENT WITH TWO CHILDREN

- Earning the NMW, household income is €630 per week.
- When gross salary is €420 per week household income is €638, an €8 improvement from the NMW.
- With the loss of OFP, household income dips and does not return to €638 until gross salary is €570 per week – a difference of €150 per week.
- The One-Parent Family Payment is withdrawn when gross earnings are €425 or above. With the withdrawal of OFP at earnings of €425 per week, household income dips. It is only when gross salary is at €570 that overall household income and degree of shortfall returns to the point when gross salary was €420.
- €570 per week is 1 ½ times the NMW, and only improves the position of the household by €8 per week in comparison to NMW earnings

- The tapering of FIS continues until the gross salary reaches €710. When FIS is lost there is an METR spike of 227%, and an income shortfall of €156.
- Income adequacy is only reach at a MIS rate of €25.75 per hour, €1,000 per week. This is 2.8 times the NMW and 2.24 times the Living Wage. The METR from the NMW to the MIS is 68% overall.
- The fact that earning 1 ½ times the NMW provides only an €8 improvement in household income shows the degree of poverty trap faced by this household composition, and the steepness of the road out of low income and income inadequacy.

CONCLUSION

Rates of pay below the Living Wage are low pay salaries. The analysis presented demonstrates that the rate at which PAYE, PRSI and USC are introduced on low pay salaries creates a greater Marginal Effective Tax Rate for salaries between the minimum wage and the Living Wage, than for salaries from the Living Wage to approximately average earnings.

The path from minimum wage and low pay salaries is steeper than the METR experienced on salaries further up the income scale, this is compounded by the tapering and withdrawal rates of in-work social welfare supports.

METRs of over 52% are exclusive to the lower end of the income scale, and do not exceed 52% for salaries which are above thresholds of in-work social welfare supports. Consequently those earning in lower paid situations have to work harder than at any other point in the income scale in order to improve their overall household income.

When the withdrawal rates of social welfare supports such as Family Income Supplement (FIS) and One-Parent Family Payment (OFP) are too steep, significantly higher salaries are required to secure a marginal increase in overall household income.

MIS rates are high and above NMW and Living Wage, as the METR on tranches of salary moving from low pay are very high, and significantly higher than those further up the income scale. In fact, in the case of the One Parent households examined, the METR was in excess of 100%, creating a significant poverty trap and barrier to escaping low paid NMW (or near NMW) employment.

The impact of this situation is demonstrated in the case of the One Parent household compositions which have a higher household income when earning the minimum wage, than when earning the higher salary at the Living Wage rate.

An METR of over 100% should not exist, it creates a perverse disincentive for both an individual worker and an employer to either earn more or pay more, as the only actor which gains from an increase in salary is the state.

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[i] The selection of the household compositions was based on data from the 2011 Census, see the Living Wage Technical Document for more detail.
[ii] Living Wage Technical Document - regions
[iii] Details of the housing costs are provided below.
[iv] The Single Affordable Childcare Scheme was announced in Budget 2017, the scheme has the potential to reduce childcare costs. At the time of writing details on how the scheme will be implemented from September 2017 were not sufficient to include its effect in any hypothetical model of how overall minimum expenditure and income needs may change when the scheme comes into effect.
[v] Author's calculation, weighted average by region, data from 2015 Q4
www.cso.ie/px/pxeirestat/pssn/prtb/homepagefiles/rent_index_statbank.asp
[vi] See www.cso.ie/px/pxeirestat/pssn/prtb/homepagefiles/rent_index_statbank.asp