



KEY POINTS

The 2018 increase to the National Minimum Wage, of €0.30 per hour, increased the gross rate by 3.2% but results in only a 1.8% increase in net earnings for a full-time minimum wage worker.

The average cost of a socially acceptable minimum standard of living increased by 2% nationally, for a single adult working age household, in 2017.

CPI headline inflation rates tends to under-estimate changes in the cost of a socially acceptable Minimum Essential Standard of Living. From 2013 to 2017, during a period of accelerated private rent growth, the cost of an MESL increased by 8.3%. Over the same period minor fluctuations in the overall CPI resulted in a cumulative effect of no change.

In 2012, when prices were at a low point, the National Minimum Wage provided for 86% of MESL need for a single adult household. In 2018, this is forecast to reduce to 76%, falling almost €110 short of minimum need each week.

In 2018, a single working age adult without dependents will need to work 58 hours per week, when earning the minimum wage, in order to afford an MESL when living in Dublin.

The 2018 minimum wage remains €2.15 below the hourly Living Wage rate of €11.70.

The VPSJ recommends that the Commission set a clear benchmark, based on evidence and data, for what constitutes a 'fair' rate, which addresses low pay and sets a 'pay floor' below which no-one should be expected to work.

INTRODUCTION

The Vincentian Partnership for Social Justice (VPSJ) welcomes the opportunity to make this submission on the National Minimum Wage rate.

The VPSJ shares the view that minimum wage rates cannot be expected to address poverty in isolation, and accepts that the minimum wage is not the appropriate mechanism to solely address income inadequacy for households with children.

Other policy mechanisms must be implemented to address significant contributory factors for family households, these include the development and implementation of the Affordable Childcare Scheme, examining the taper rate of in-work supports such as Family Income Supplement (Working Family Payment) and One-Parent Family Payment, and access to adequate affordable housing through the provision of social housing.

Rates of pay, including the minimum wage, cannot be expected to take account of household composition, number of people dependent on a wage, etc. Social supports must work to smooth out such additional and different needs.

However, setting an appropriate wage floor “below which no-one should be expected to work”ⁱ is essential, to address the needs of those without dependent children, and to set a reasonable for other social support mechanisms to work from.

In this context, social supports can work in conjunction with an (appropriately set) minimum wage floor to ensure the minimum wage can provide households with dependents an acceptable minimum standard of living.

Among the factors the LPC is required to consider in recommending the appropriate rate for the NMW, are that the rate should “assist as many low paid workers as is reasonably practicable” and be “both fair and sustainable”, with incremental adjustments progressively increasing the rate overtime.

Given these points, we recommend that the Commission set a clear benchmark, based on evidence and data, for what constitutes a ‘fair’ rate, which addresses low pay and sets a ‘pay floor’ below which no-one should expected to work.

At a minimum, the National Minimum Wage rate should be based on the rationale that full-time employment will at least provide for an acceptable minimum standard of living for a single person without dependents. Having an income below this standard of living means doing without goods and services which are seen as essential for taking part in the norms of everyday life in Ireland.

Therefore, it is vital that the National Minimum Wage establishes an appropriate floor, providing a rate of pay which should enable an individual to have an acceptable minimum standard of living when engaged in full-time employment.

MINIMUM ESSENTIAL STANDARD OF LIVING

The VPSJ's Minimum Essential Standard of Living (MESL) research establishes a negotiated social consensus on what people believe is required for households to have a minimum socially acceptable standard of living. The data specifies the minimum expenditure required to live and partake in Irish society at a standard of living which members of the public agree nobody should be expected to live below.

This understanding of an acceptable minimum standard of living, echoes the concepts which underpin the human right to an adequate standard of living, and the Irish Government definition of poverty which emphasises the ability to have a “standard of living which is regarded as acceptable by Irish society generally” and to participate in normal activities. The MESL translates these concepts and ideals into a practical measure, specifying 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 MESL provides the evidence base for the Living Wage. The Living Wage rate for Ireland is calculated by the VPSJ's Minimum Essential Budget Standards research centre, in consultation with the Living Wage Technical Group, on the basis of the Minimum Essential Standard of Living research.

The recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing MESL research. This submission is based on the 2017 MESL data and analysis of income adequacy. The Minimum Essential Standard of Living 2017 update reportⁱⁱ provides detailed analysis of the minimum expenditure and income needs of a range of representative household compositions.

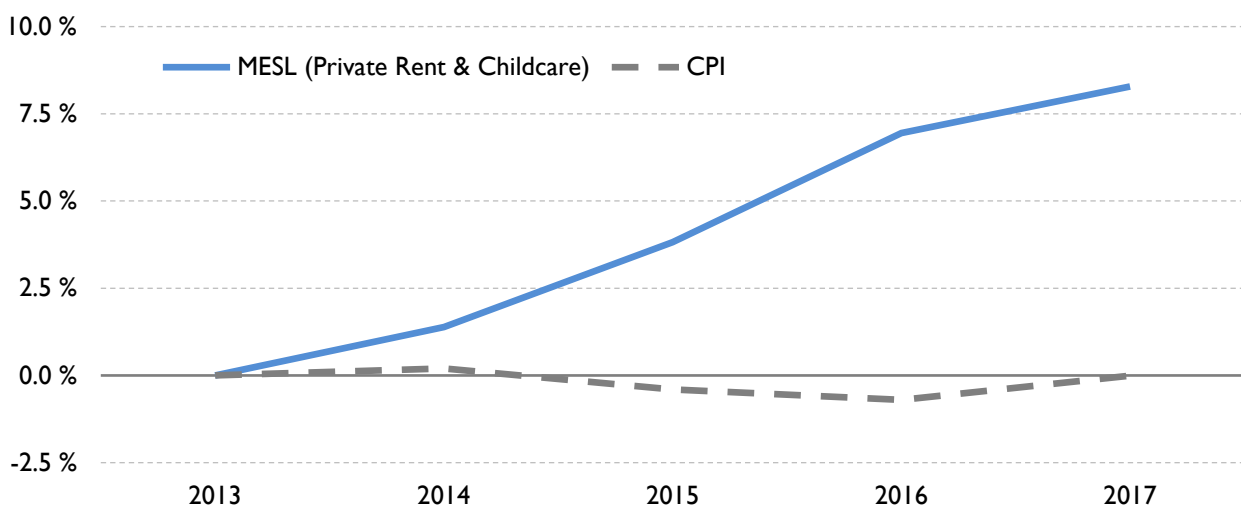
Further information on the research, reports and working papers, and the detailed MESL expenditure and income needs of additional household types can be found on www.budgeting.ie.

CHANGING COST OF AN MESL VS CPI INFLATION

The MESL household expenditure budget, which represents the requirements for an agreed minimum standard of living, is more concentrated on basics such as food, electricity and home heating, than that of the average household. Approximately one third of household expenditure is allocated to these categories in the MESL budgets; by comparison the Household Budget Survey shows that these areas account for a quarter of the average household’s expenditure. Consequently, the cost of an MESL changes at a different rate than that indicated by the average CPI rate.

The MESL research has tracked the changes in the cost of an MESL against the headline CPI inflation rate, and has found that the CPI headline inflation rate tends to under-estimate changes in the cost of an MESL. The disparity between changes in the MESL and the CPI index re-enforces the point made by the CSO, that the CPI is not a cost of living indexⁱⁱⁱ, and is reflected in the findings of ESRI research demonstrating the different rate of inflation experienced by households on lower incomes when compared to the national average^{iv}.

Graph 1 Cumulative change in MESL (Including Private Rent & Childcare) and CPI (Base = 2013)



Private rents have increased each year since 2012 (as measured by the CPI), with increases of 8% to 10% in each of the last four years. Compared to the recession low point of 2010, rents have increased by over 50%. Such increases have led to dramatic rises in the overall cost of an MESL for households unable to access social housing and a differential rent.

There has been a 1.25% increase in the overall cost of an MESL (including private rent^v and childcare^{vi}) in the year from 2016 to 2017. From 2013, during a period of accelerated private rent growth, the cost of an MESL increased by 8.3%. Over the same period minor fluctuations in the overall CPI resulted in a cumulative effect of no change. Consequently, over this period the CPI has under-estimated the change in the expenditure required for an MESL (where private rent and childcare are required) by 8.3 percentage points.

NATIONAL MINIMUM WAGE ADEQUACY

The 2018 increase in the National Minimum Wage (NMW) rate of €0.30 brings the rate to €9.55 per hour, a 3.2% adjustment from the 2017 rate. This remains €2.15 below the current Living Wage rate (€11.70 per hour); the NMW is 81.6% of the Living Wage.

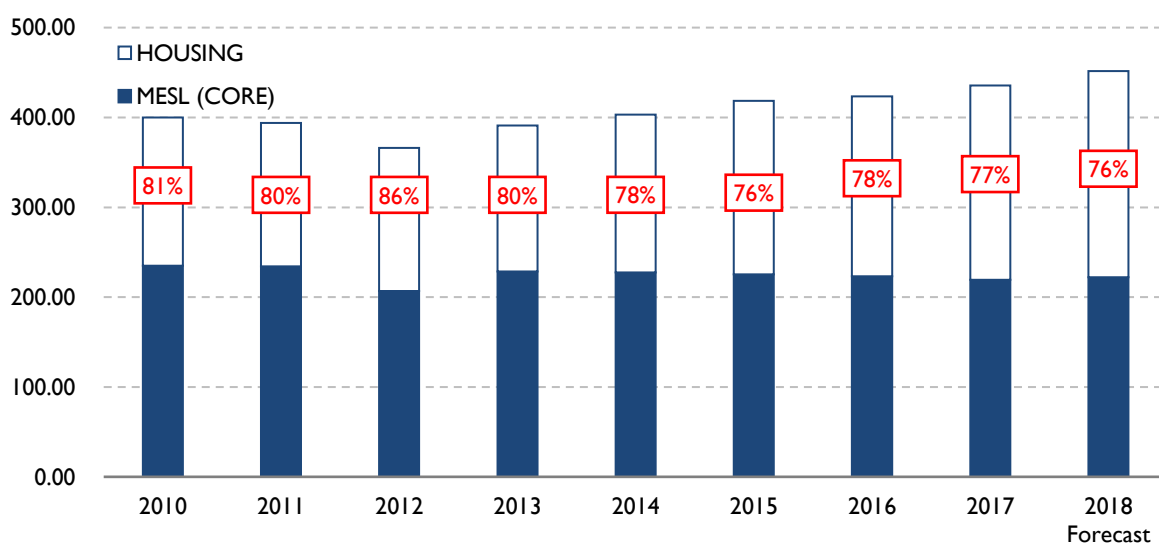
Cumulatively the NMW rate has been increased by 10.4% during the term of the Low Pay Commission. While the rate of the National Minimum Wage (NMW) did not increase above €8.65 per hour from July 2007 until the increase to €9.15 per hour in January 2016, the net income from the NMW fluctuated with adjustments to PAYE Income Tax and the Universal Social Charge.

In terms of net income changes, a full-time minimum wage employee earning €8.65 in 2010 was not liable for income taxes, this is no longer the case in 2018. Consequently, the cumulative change in net income, for a full-time minimum wage worker, is 5.7%.

For a person earning the minimum wage, working full-time (37.5 hours), gross weekly salary will increase by €11.25 in 2018 due to the NMW change. However, net income will increase by only €6, as the higher gross salary in 2018 will be liable for an additional €2.25 in PAYE and €3.35 in PRSI. The USC reduction will reduce the total additional tax payable to €5.24. This results in a Marginal Effective Tax Rate of 46.6% on the NMW increase for a full-time worker.

The 3.2% adjustment in the gross NMW rate has resulted in a 1.8% increase in net income for a full-time minimum wage worker in 2018. This is marginally above the forecast CPI inflation of 1.3% for 2018^{vii}.

Graph 2 Single Adult, Urban, MESL Expenditure Need and Full-Time NMW Adequacy



Housing costs increased by 7.9% for this household type (in Dublin) between 2016 and 2017, and this trend is continuing. The combination of inflation generally and increasing rents result in a forecast increase in minimum expenditure need of €16 per week (3.7%) in 2018, for a single adult living and renting in Dublin.

In 2018 income inadequacy will likely deepen for a household in this scenario, with an income shortfall of approximately €110 per week. The NMW will provide for only three quarters of this household's MESL expenditure need.

Based on the current forecast MESL costs for 2018, a single adult would need to have over 57.9 hours of paid NMW employment per week in order to afford an MESL in Dublin in the coming year.

Table I Single Adult MESL Expenditure Need & NMW Adequacy^{viii}

	2010	2011	2012	2013	2014	2015	2016	2017	2018 FORECAST
MESL EXPENDITURE									
MESL (CORE)	235.10	234.42	207.00	228.65	227.64	225.19	223.19	219.30	222.11
HOUSING	165.01	159.48	159.13	162.43	175.63	193.44	200.34	216.26	229.36
TOTAL MESL	400.11	393.90	366.13	391.08	403.27	418.63	423.53	435.56	451.48
NMW INCOME (Full-Time, 37.5 hours)									
Hourly Rate	8.65	8.65	8.65	8.65	8.65	8.65	9.15	9.25	9.55
GROSS SALARY	324.38	324.38	324.38	324.38	324.38	324.38	343.13	346.88	358.13
USC	0.00	-9.12	-9.12	-9.12	-9.12	-6.73	-5.67	-4.05	-8.16
PRSI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3.70
PAYE	0.00	-1.41	-1.41	-1.39	-1.38	-1.38	-5.13	-5.88	-3.35
NET	324.38	313.85	313.85	313.87	313.88	316.27	332.33	336.95	342.92
INCOME ADEQUACY									
Net Income - Total MESL	-75.73	-80.05	-52.28	-77.20	-89.39	-102.36	-91.21	-98.61	-108.56
Net Income as % MESL	81%	80%	86%	80%	78%	76%	78%	77%	76%

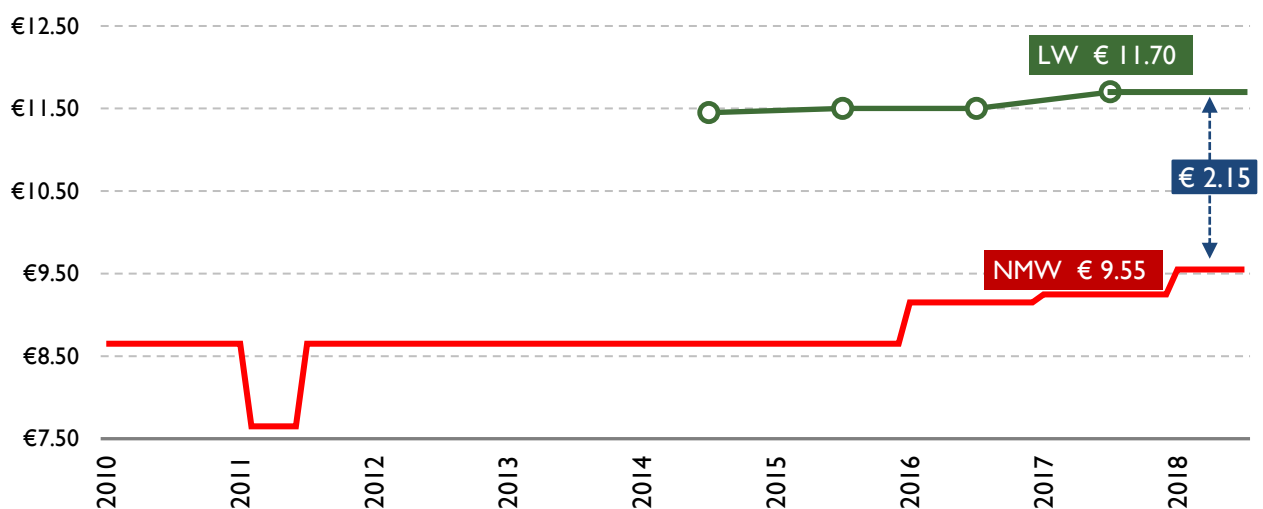
THE LIVING WAGE

The Living Wage is the gross salary needed, on average, for a single person in full-time employment to afford an acceptable minimum standard of living. While earning the Living Wage rate (currently €11.70 per hour) will not guarantee an adequate income for individuals and households in all circumstances, it provides a base for social supports to build from.

At a minimum, the National Minimum Wage rate should be based on the rationale that full-time employment will at least provide for an acceptable minimum standard of living. The Living Wage provides the rate which will meet this minimum threshold.

The Living Wage is an evidence based rate of pay which is grounded in social consensus. The MESL research has been instrumental in the development of the Living Wage, providing the evidence base for its calculation. The Living Wage rate represents an earnings floor that enables an acceptable minimum standard for those without dependents, and an earnings threshold which members of the public agree no one should be expected to be below.

Graph 3 NMW and Living Wage (LW) rate



The annual Living Wage rate is published in July of each year. In 2017 the rate increased by €0.20 to €11.70 per hour.

Despite a reduction in the cost of core items such as food, clothing and electricity, and an increase in net salary due to USC changes, the rate required an increase to maintain a minimum standard of living due to rising rents nationally. The overall cost of a socially acceptable minimum standard of living increased by an average of 2%, nationally, for a single adult working age household.

The NMW in 2017 of €9.25 per hour, was €2.45 below (or 79.1% of) the 2017 Living Wage rate of €11.70 per hour. The 2018 increase of the NMW to €9.55 per hour, brings the minimum wage to €2.15 below (or 81.6% of) the 2017 Living Wage rate.

The ongoing increase in overall minimum living costs, as outlined above, mean it is likely that the Living Wage rate will increase in 2018, widening the gap between the NMW and the Living Wage again.

CONCLUSION

This submission is intended to bring salient points on the cost of an acceptable minimum standard of living, the different rate of change in the cost of a minimum standard of living and the headline CPI rate, the inadequacy of the current National Minimum Wage rate, and the Living Wage rate which sets a benchmark for an acceptable minimum earnings threshold, to the attention of the Low Pay Commission.

It is not the intention of this submission to advocate an immediate adjustment of the NMW rate to the Living Wage. Rather, the VPSJ recommends that the Commission consider setting a clear rationale for determining the appropriate level of the NMW; and on that basis sets a transparent programme of rate adjustments which will see the progressive realisation of the National Minimum Wage becoming an evidence based earnings floor, and providing an acceptable minimum standard of living.

While issues regarding the access to adequate affordable housing, the cost of childcare, or the efficacy of in-work social welfare supports are not within the remit of the Low Pay Commission it is important that the Commission be cognisant of these issues in their recommendations, and also of the effect of changes in the NMW rate on entitlement to social supports.

Social supports which reduce exceptional living costs and work to smooth out the different needs resulting from household composition, regional differences, etc. are vital mechanisms which Government, as a whole, must address.

Regarding the appropriate rate of the National Minimum Wage, progressive steps towards ensuring the rate of pay is based on evidence and data and reflects the minimum needs and costs of individuals striving for an acceptable standard of living, are vital.

As such, the Low Pay Commission must set out a road map which sees the NMW rate moving toward an acceptable floor. The variation in recent rate increases fail to provide any certainty into the future for either workers or employers.

- ii LPC, 2017. Recommendations for the National Minimum Wage. Page 1.
- ii VPSJ, 2017. MESL 2017 Update Report. Published on-line
<https://www.budgeting.ie/publications/mesl-2017-update-report/>
- iii CSO, 2015. CSO Consumer Price Index Methodology. Published on-line
www.cso.ie/en/media/csoie/surveysandmethodologies/surveys/prices/documents/introductiontocpi2.pdf
- iv Callan, T. & Colgan, B., 2015. ESRI Research Note: The Distributional Impact of Inflation: 2003-2014.
Published on-line
www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014/
- v Based on 90% of the average Dublin rent for a dwelling size appropriate to the household composition.
- vi Where required by the household composition.
- vii Central Bank (2017) Quarterly Bulletin No.3 2017
<https://centralbank.ie/docs/default-source/publications/quarterly-bulletins/quarterly-bulletin---q3-2017.pdf#page=8>
- viii Single Adult housing cost is based on private rented housing, at 90% of the average cost of a private rented one bedroom dwelling in Dublin, using RTB Rent Index data. Income calculations are based on full-time (37.5 hours) employment. The Medical Card means test is applied, following published HSE Medical Card guidelines; where eligibility is found MESL Expenditure need is adjusted to reflect reduced health costs and income calculations take account of reduced USC liability.
2018 Forecast MESL Expenditure is based on the 2017 MESL adjusted for forecast inflation of 1.3%, and Q3 2017 average rent data was €1,104.34, 90% is €993.91.