

KEY POINTS

The 2019 increase to the National Minimum Wage (NMW), of €0.25 per hour, increased the gross rate by 2.6% but results in only a 1.6% increase in net earnings for a full-time minimum wage worker.

In 2018, the cost of a socially acceptable minimum standard of living increased by 4.7%, for a single adult working-age household, when paying a market rent.

CPI headline inflation rates tends to under-estimate changes in the cost of a socially acceptable Minimum Essential Standard of Living. From 2013 to 2018, during a period of accelerated private rent growth, the cost of an MESL increased by 9.9%. Over the same period minor fluctuations in the overall CPI resulted in a cumulative change of 0.2%.

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 2019, this is forecast to reduce to 75%, falling over €115 short of minimum need each week.

In 2019, a single working age adult without dependents will need to work over 57 hours per week, when earning the minimum wage, in order to afford an MESL when living in Dublin.

The 2019 minimum wage remains €2.10 below the hourly Living Wage rate of €11.90.

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.

Among the factors the Low Pay Commission (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,” be “both fair and sustainable” and “provide an incentive to work,” 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 be 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 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.

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 the 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 basis 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.

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. 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, based on 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 2018 MESL data and analysis of income adequacy. The MESL 2018 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.

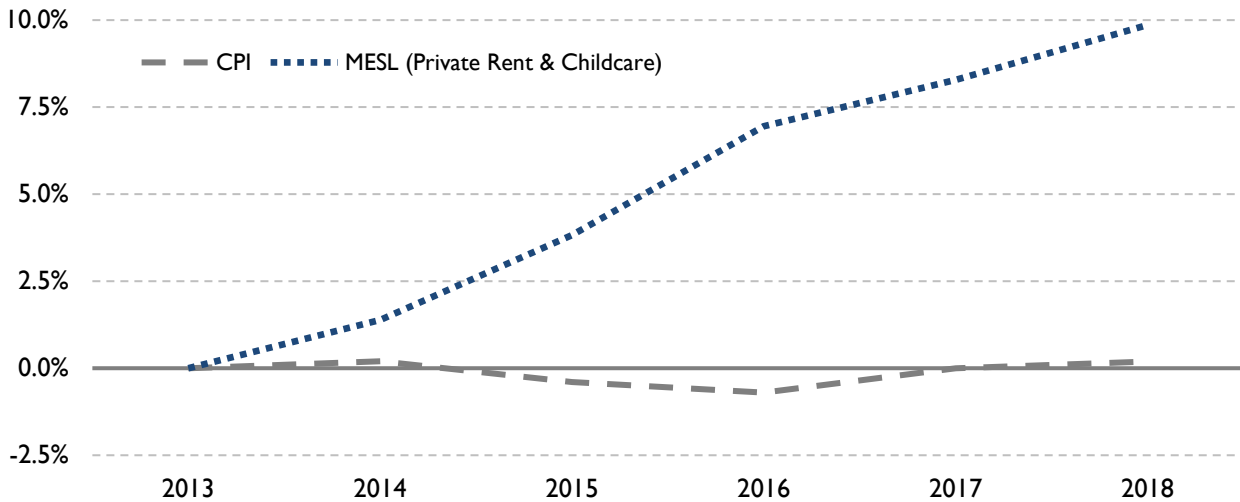
CHANGING COST OF AN MESL VS CPI INFLATION

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 less than a quarter of the average household's expenditureⁱⁱⁱ. 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 index^{iv}, 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^v.

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



There has been a 1.46% increase in the overall cost of an MESL (including private rent^{vi} and childcare^{vii}) in the year from 2017 to 2018. From 2013, during a period of accelerated private rent growth, the cost of an MESL increased by 9.9%. Over the same period, minor fluctuations in the overall CPI resulted in a cumulative effect of a 0.2% increase. 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 9.7 percentage points.

Compared to the recession low point of 2010, rents have increased by over 60%. 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.

NATIONAL MINIMUM WAGE ADEQUACY

The 2019 increase in the National Minimum Wage (NMW) rate of €0.25 brings the rate to €9.80 per hour, a 2.6% adjustment from the 2018 rate. This remains €2.10 below the current Living Wage rate (€11.90 per hour); the NMW is 82% of the Living Wage.

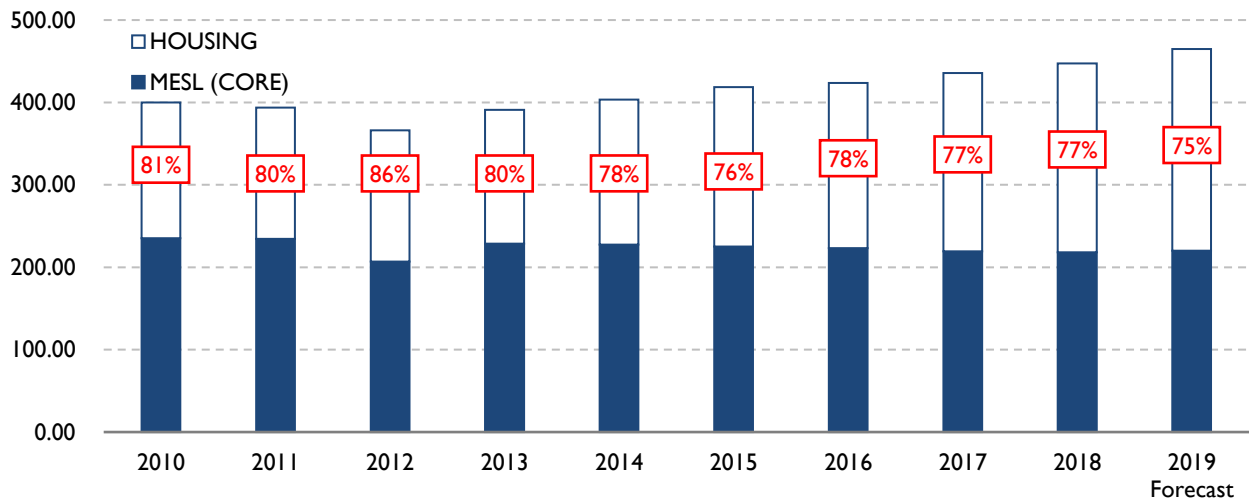
Cumulatively the NMW rate has been increased by 13.3% during the term of the Low Pay Commission. While the rate of the NMW did not increase above €8.65 per hour from July 2007 until the increase to €9.15 per hour in January 2016, the net income from the NMW fluctuated with adjustments to PAYE Income 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 2019. Consequently, the cumulative change in net income, for a full-time minimum wage worker, is 7.4% since 2010.

For a person earning the minimum wage, working full-time (37.5 hours), gross weekly salary increased by €9.38 in 2019 due to the NMW change. However, net income increased by only €5.34, as the higher gross salary in 2019 will be liable for an additional €1.91 in PAYE, €1.94 in PRSI and €0.19 in USC (€4.04 p/week cumulatively). This results in a Marginal Effective Tax Rate of 43% for a full-time worker.

The 2.6% adjustment in the gross NMW rate has resulted in a 1.6% increase in net income for a full-time minimum wage worker in 2019. This is above the forecast CPI inflation of 0.9% for 2019^{viii}.

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



Housing costs increased by 10.0% for this household type (in Dublin) between 2017 and 2018, and this trend is continuing. This increase offset any other reduction in MESL expenditure need, increasing overall costs for this household type by 4.7%, when paying a market rent.

In a scenario where this household type is in receipt of the Housing Assistance Payment, exceeding the Dublin rent limits by the permitted 20%, and paying a further top-up direct to the landlord, the minimum wage would be almost adequate, meeting 98% of MESL expenditure need. This demonstrates the potential of access to social housing to significantly reduce the overall MESL cost and resulting minimum income need.

In 2019 income inadequacy will likely deepen for a household in this scenario, with an income shortfall of approximately €115 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 2019, a single adult would need to have over 57 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^{ix}

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019f
MESL EXPENDITURE										
MESL (CORE)	235.10	234.42	207.00	228.65	227.64	225.19	223.19	219.30	218.06	220.02
HOUSING	165.01	159.48	159.13	162.43	175.63	193.44	200.34	216.26	237.81	245.00
TOTAL MESL	400.11	393.90	366.13	391.08	403.27	418.63	423.53	435.56	455.87	465.01
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	9.8
GROSS SALARY	324.38	324.38	324.38	324.38	324.38	324.38	343.13	346.88	358.13	367.50
USC	0.00	-9.12	-9.12	-9.12	-9.12	-6.73	-5.67	-4.05	-3.70	-3.89
PRSI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3.35	-5.28
PAYE	0.00	-1.41	-1.41	-1.39	-1.38	-1.38	-5.13	-5.88	-8.13	-10.04
NET	324.38	313.85	313.85	313.87	313.88	316.27	332.33	336.95	342.95	348.29
INCOME ADEQUACY										
Net Income - Total MESL	-75.73	-80.05	-52.28	-77.20	-89.39	-102.36	-91.21	-98.61	-112.92	-116.72
Net Income as % MESL	81%	80%	86%	80%	78%	76%	78%	77%	75%	75%

THE LIVING WAGE

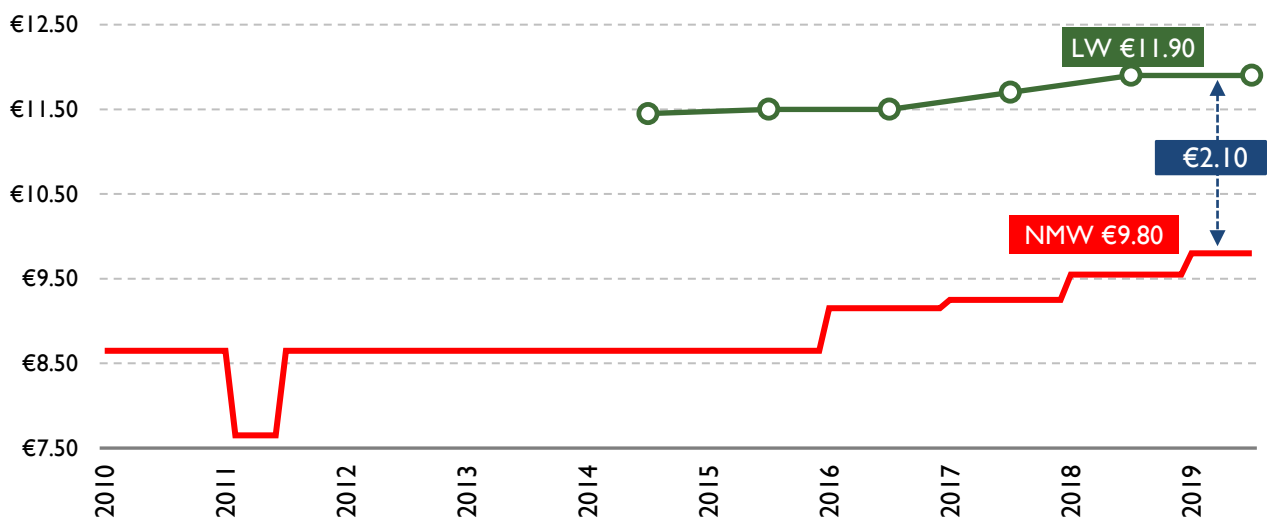
The Living Wage is the gross salary needed, on average, for a single person in full-time employment to afford an acceptable minimum standard of living. While earning the Living Wage rate (currently €11.90 per hour) will not guarantee an adequate income for individuals and households in all circumstances, it provides a base for social supports to build from.

At a minimum, the NMW 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. In that sense, it is an income floor; earnings below the living wage suggest employees are forced to do without certain essentials so they can make ends meet.

It 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 annual Living Wage rate is published in July of each year. In 2018 the rate increased by €0.20 to €11.90 per hour.

Despite a reduction in insurance costs (car and health) and food costs, and a reduction in the Universal Social Charge (USC) paid by an employee on the Living Wage, the rate has increased. The current housing crisis, and associated rising rent levels nationally, continues to be the main driver of the wage rate increasing.

Graph 3 NMW and Living Wage (LW) rate



The NMW in 2018 of €9.55 per hour, was €2.35 below (or 80% of) the 2018 Living Wage rate of €11.90 per hour. The 2019 increase of the NMW to €9.80 per hour, brings the minimum wage to €2.10 below (or 82% of) the 2018 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 2019, widening the gap between the NMW and the Living Wage again.

EMPLOYMENT & SOCIAL WELFARE

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

Minimum rates of pay cannot provide for income adequacy in isolation. Adequate affordable services can reduce the cost of an MESL. In conjunction with these services, well-designed in-work income supports have the potential to supplement incomes, to address the additional needs of households with children, ensuring an MESL is a reality for all. However, there are points within the current system where the interaction of supports produces negative results. The following findings are from the ongoing MESL research.^x

An analysis of various employment scenarios has demonstrated incongruous situations where the current tapering and withdrawal of Working Family Payment (WFP) and One-Parent Family Payment (OFP) can result in a household with higher work intensity/higher rates of pay being worse off than equivalent households with lower income.

Several Two Parent household compositions with younger children demonstrate this issue, by comparing the position of single and dual employment situations and the adequacy at varying levels of work intensity. It is found that ineligibility for WFP for households with

higher work intensity contributes to income inadequacy, compared to situations of adequacy with single incomes or less hours worked.

A household scenario based on NMW employment may demonstrate adequacy, but earning less than €1 above the NMW rate results in inadequacy (due to WFP ineligibility and a lower level of Community Childcare Subvention (CCS) support). Eligibility for higher rates of CCS being contingent on qualifying for WFP serve to compound this issue, as the significant differences in support provided for childcare costs has much greater impact than failure to qualify for the minimum rate of WFP.

The combined tapering of OFP and WFP remains very steep, with a Marginal Effective Tax Rate of 84% evident on the change from part-time to full-time minimum wage employment. Resulting in minimal net gain to household income from increased work intensity. The steep withdrawal rate, combined with the OFP salary limit combine to create a significant income trough, with earnings of €425 to €580 per week resulting in lower net household income than minimum wage employment.

CONCLUSION

This submission is intended to bring salient points on the cost of an acceptable minimum standard of living to the attention of the LPC, such as: the different rate of change in the cost of a MESL and the headline CPI rate, the inadequacy of the current NMW rate, the Living Wage rate (which sets a benchmark for an acceptable minimum earnings threshold), and issues regarding the access to adequate affordable housing, the cost of childcare, or the efficacy of in-work social welfare supports

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 NMW becoming an evidence based earnings floor, and providing an acceptable minimum standard of living.

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 that the Government 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.

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- ii LPC, 2018. Recommendations for the National Minimum Wage. Page 1.
 - ii VPSJ, 2018. MESL 2018 Update Report. Published on-line
www.budgeting.ie/publications/mesl-2018/
 - iii Figures from the Household Budget Survey.
www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=HS012&PLanguage=0
 - iv CSO, 2015. CSO Consumer Price Index Methodology. Published on-line
www.cso.ie/en/media/csoie/surveysandmethodologies/surveys/prices/documents/introductiontocpi2.pdf
 - v 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/
 - vi Based on 90% of the average Dublin rent for a dwelling size appropriate to the household composition.
 - vii Where required by the household composition.
 - viii Central Bank (2018) Quarterly Bulletin No.3 2018
www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2018/quarterly-bulletin---q3-2018.pdf?sfvrsn=10
 - ix 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.
2019 Forecast MESL Expenditure is based on the 2018 MESL adjusted for forecast inflation of 0.9%, and Q2 2018 average rent was €1,179.61, 90% is €1,061.65.
- ^x These points are summarised from the VPSJ's MESL 2018 Update Report, p19-26 and MESL Appendix Tales, p8A-21A