

## Key Points

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The 2021 increase to the National Minimum Wage (NMW) of €0.10 per hour increased the gross rate by 0.99%. This provides a 0.6% increase in net earnings for a full-time minimum wage worker.

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Income inadequacy from minimum wage employment is forecast to worsen in 2021. Net income for a single adult in full-time minimum wage employment met 73% of MESL need in 2020. This is forecast to fall to 72% in 2021 due to increases in minimum living costs exceeding the rate of increase in the NMW.

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In 2021, a single working age adult without dependents would need to work 59.5 hours per week, when earning the minimum wage, in order to afford an MESL when living in Dublin. This would reduce to 46.7 hours if in receipt of Housing Assistance Payment.

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The Living Wage is an evidence-based rate of pay, calculated on the basis of minimum living costs. The current Living Wage rate is €12.30 per hour, €2.10 higher than the National Minimum Wage.

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As part of the creation of a new social contract, the Programme for Government commits to progress to a living wage over the lifetime of the Government. Consideration must now be given as to how the gap between the National Minimum Wage and the Living Wage is to be bridged.

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The VPSJ recommends that the Commission consider setting a transparent rationale for determining the appropriate level of the NMW, to ensure the rate of pay is based on evidence and will provide an adequate income for a life with dignity. On that basis, a roadmap of rate adjustments which will see the progressive realisation of the NMW becoming an acceptable earnings floor can be established.

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There is growing disparity between the change in prices measured by standard inflation rates and the actual change in minimum living costs and for those on lower incomes. The impact of pandemic related shifts in consumption patterns on this trend has been highlighted by the ECB.

Recent MESL analysis has also found significant differences between the level of change measured by CPI rates and the degree of change in the cost of the items which comprise the MESL basket.

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The VPSJ recommends that the Commission consider the examination of determining an appropriate inflation rate for tracking changes in living costs for those on low incomes and / or dependent on the National Minimum Wage.

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# Introduction

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

The impact of COVID-19 on individuals, families, society, jobs and the economy presents many unique challenges, and an unprecedented context for the deliberations of the Low Pay Commission (LPC). However, the factors which the LPC is required to be cognisant of, that the NMW 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, remain as salient and relevant as ever.

The most recent data on those who are in receipt of the Pandemic Unemployment Payment (PUP)<sup>i</sup> shows significant overlap with the sectors and groups which are found in minimum wage employment<sup>ii</sup>. For instance, the accommodation and food sector has the highest number of people in receipt of the PUP (23.4%) and accounts for the largest group (30.0%) of minimum wage employees. Additionally, women are more likely than men to be earning the minimum wage (54.2% and 45.8% respectively) and women are more likely than men to be on the lower rates of the PUP (56.6%, 57.5% & 52.3% of recipients of the lower PUP rates [€203, €250 & €300] rates are women, while 34.1% of claimants of the highest rate [€350] are women).

Key principles in the European Pillar of Social Rights state that minimum wages should be adequate to meet the needs of the worker and provide for a decent standard of living, the EPSR also states that all have a right to an adequate minimum income which enables a life with dignity.

As part of the creation of a new social contract, the Programme for Government commits to progress to a living wage over the lifetime of the Government. The Living Wage rate calculated by the LWGTG is evidence-based, building on budget standards research undertaken by the Vincentian Partnership for Social Justice, and reflects the real costs faced by employees in Ireland.

At a minimum, the National Minimum Wage rate should be based on the rationale that full-time employment will at least provide for a socially 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 NMW establishes an appropriate floor which should enable an individual to have an acceptable minimum standard of living when 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. Social supports must work to smooth out additional and different needs, arising from household composition, number of dependents, etc. These include measures to ensure the affordability of childcare, examining the taper rate and adequacy of in-work income supports, and ensuring access to adequate, secure, and affordable housing through the provision of social housing.

However, setting an appropriate wage floor “below which no-one should be expected to work”<sup>iii</sup> 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.

It is crucial that both those already living with inadequate income when entering this crisis and those now reliant on state supports, are supported through the measures taken as we emerge. Making progressive steps towards establishing an evidence based National Minimum Wage rate, with reference to the cost of a socially acceptable minimum standard of living can ensure households are supported through the crisis and recovery, are ultimately enabled to live with dignity.

## Minimum Essential Standard of Living

The VPSJ's Minimum Essential Standard of Living (MESL) research works with members of the public in deliberative focus groups to reach consensus on what is the minimum people need to live and partake in Irish society. It is a standard of living which people agree no one should be expected to live below. It represents the minimum required to meet physical, social and psychological needs, and enable a life with dignity.

The research is iterative, working through multiple phases of deliberative groups, to establish a negotiated social consensus on what people regard as essential for households to have a minimum, but socially acceptable, standard of living.

In this way the MESL is a tangible measure, grounded in lived experience and derived from social consensus, of what is required for participation, dignity and avoiding poverty. It operationalises the concepts which underpin the Irish Government definition of poverty, the human right to an adequate standard of living, and the key principle set out in the European Pillar of Social Rights that all have a right to an adequate minimum income which enables a life with dignity.

The MESL translates these concepts and ideals into a practical benchmark, as it specifies the average weekly cost of the goods and services deemed necessary to enable a socially acceptable minimum standard of living. In effect it operationalises a direct measure of poverty and a life with dignity.

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 MESL 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 2020 MESL data and analysis of income adequacy. The 2020 MESL data<sup>iv</sup> is the product of an extensive two-year review and rebase research project, which entailed convening multiple deliberative focus group sessions for each household type to review, interrogate, and adapt the content of the MESL baskets to current requirements. Subsequent to re-establishing the content of the basket of goods and services required for a socially acceptable minimum standard of living, the itemised baskets were directly re-priced

# Inflation and changes in minimum living costs

The COVID-19 pandemic has brought great uncertainty to how prices and living costs have changed in the course of the last year and will continue to change in the coming year. The Central Bank<sup>v</sup> note that to date COVID-19 has had a downward impact on consumer prices, with inflation turning negative from April 2020. However, HICP inflation is forecast to increase by 0.6% in 2021 and 0.8% in 2022, being predominantly driven by increases in energy and food prices. The Dept. of Finance<sup>vi</sup> similarly flag the potential impact of energy prices throughout 2021, noting the: “increase in headline HICP in 2021 will be driven by rising energy prices”.

Furthermore, it is likely that these forecast figures are not reflecting the impact of a pandemic induced shift in the share of household expenditure going to essentials such as groceries. The ECB has noted that changes in consumption patterns have resulted in HICP inflation potentially under-estimating the level of inflation experienced by households.<sup>vii</sup>

This reflects past evidence, such as during the ‘great recession’ when lower income households experienced higher rates of inflation than the national average or that experienced by higher income households.<sup>viii</sup> Previous ESRI analysis has also shown that low income households are especially vulnerable to post-Brexit food price increases.<sup>ix</sup>

The MESL research has previously highlighted issues regarding the appropriateness of standard inflation rates in measuring the change in the cost of a minimum basket of goods and services. There is a body of evidence which demonstrates that inflation, and changes in the overall cost of living, are felt differently by various social groups and at different income levels. Past evidence suggests that the price changes in minimum living costs tend not to reflect the same changes measured in the average basket assumed in headline inflation measures.

Changes in prices effect the overall cost of an MESL differently from the national average measured by standard inflation rates. Households attempting to afford a minimum standard of living are more vulnerable to price changes in essentials such as food, energy and transport, and are less likely to have price increases in these areas offset by reductions in other areas.

The recent completion of an extensive review and rebase of the Minimum Essential Standard of Living<sup>x</sup> baskets has shone a light on this issue. The finalisation of the reviewed and rebased MESL data has found that the cost of the core MESL household budgets were an average four percentage points higher in 2020 than would have been anticipated based on annual inflation adjustments only.

A working paper<sup>xi</sup> provides further analysis of these findings, comparing the prices of equivalent items between 2012 and the rebased prices to the CPI adjusted estimates. The scale of divergence varies between household types, due to differences in the composition of the baskets, but in all cases indicates that the CPI notably under-estimates the changes in the cost of a minimum basket of goods and services. For example, in the case of a working-age single adult, the rebased cost of equivalent items were 15% higher than the estimates produced by CPI adjustments.

The disparity in the rates of change highlights the importance of the composition of the basket of goods being tracked in informing how overall living costs and needs are changing. This demonstrates that standard inflation measures are not an appropriate indicator of the change in need for those in low income situations and / or reliant on the minimum wage. The VPSJ recommends that the Commission consider the examination of determining an appropriate inflation rate for tracking changes in living costs for those on low incomes and / or dependent on the National Minimum Wage.

## National Minimum Wage Adequacy

The 2021 increase in the National Minimum Wage rate of €0.10 brought the rate to €10.20 per hour, a 0.99% adjustment from the 2020 rate.

When in full-time (37.5 hours) minimum wage employment gross weekly salary increased by €3.75 in 2021 due to the NMW change. The adjustment in the gross NMW rate has resulted in a 0.61% increase in net income for a full-time minimum wage worker in 2021. The marginal effective tax rate on the increase in the NMW, for a single full-time worker, is 42.6%.

Table 1 Single Adult MESL Expenditure Need & Full-Time NMW Adequacy<sup>xii</sup>

	Market Rent (90% Average)		Housing Assistance Payment	
	2020	2021 f	2020	2021 f
<b>MESL Expenditure</b>				
MESL (Core)	221.98	221.98	221.98	221.98
Housing	262.08	272.35	158.17	168.75
Total MESL	484.06	494.33	380.15	390.73
<b>NMW Income (Full-Time, 37.5 hours)</b>				
Gross Salary	378.75	382.50	378.75	382.50
USC	12.28	13.03	12.28	13.03
PRSI	4.11	4.19	4.11	4.19
PAYE	7.61	8.38	7.61	8.38
Net Income	354.75	356.90	354.75	356.90
Medical Card	Full	Full	Full	Full
<b>Income Adequacy</b>				
Net Income - Total MESL	-129.31	-137.44	-25.40	-33.83
Net Income as % MESL	73.3%	72.2%	93.3%	91.3%

In 2020 a full-time minimum wage salary met only 73% of the MESL expenditure need of a working-age single adult. In 2021 the marginal increase in the NMW is insufficient to meet rising rental costs. It is estimated that a standard full-time minimum wage salary will meet 72% of MESL needs, falling over €135 short per week, for a single person living and renting a one-bedroom dwelling in the Dublin area

In a situation where a single working-age adult is in receipt of the Housing Assistance Payment (HAP) rental costs to the household would be reduced<sup>xiii</sup>. Rental costs to the household would be comprised of a differential rent and a top-up payment to bridge the shortfall between HAP rent limits and the market rent. In 2020, in a HAP scenario NMW net income met 93% of MESL need. In 2021 housing costs increase due to the rise in

market rents and a higher differential rent resulting from the increase in the NMW. Consequently, adequacy is forecast to reduce to 91% of MESL need in 2021.

## Minimum Income Standard

The NMW is inadequate to meet the cost of minimum needs in the cases presented above. The Minimum Income Standard<sup>xiv</sup> (MIS) is the gross salary required for the household to afford an MESL. Here, the MIS is presented for a Dublin based working-age single adult household when paying a market rent and when in receipt of the HAP housing support.

In 2021, a single working-age adult living in private rented accommodation in Dublin is forecast to need a gross salary of €607 per week, in order to afford a socially acceptable minimum standard of living. This Minimum Income Standard is equivalent to an hourly rate of €16.20, 59% higher than the NMW. To achieve this income level when in minimum wage employment would require 59.5 hours of work per week.

Table 2 Single Adult, Minimum Income Standard, 2021 Estimate, by Housing Scenario

	HAP	Market Rent
<b>MESL Expenditure</b>		
MESL (Core)	238.00	238.00
Housing	177.95	272.35
Total MESL	415.95	510.35
<b>MIS Income (Full-Time, 37.5 hours)</b>		
Gross Salary	476.25	607.50
USC	31.33	57.58
PRSI	8.02	13.93
PAYE	19.05	24.30
Net Income	417.85	511.69
Medical Card	GP Visit	GP Visit
<b>MIS</b>		
Hourly Gross Salary	12.70	16.20
MIS as % NMW	125%	159%

Access to housing supports can potentially result in a substantial reduction in minimum living costs. In the HAP scenario presented above the NMW provides for 91% of MESL need in 2021. However, the MIS required in this scenario is 25% higher than the NMW, €12.70 per hour, to provide a gross salary of €476 per week.

This demonstrates how services are vital in supporting households to income adequacy, in conjunction with secure employment, but an appropriate minimum rate of pay and the design of services and supports are also crucial. In the example presented, income increases lead to increased costs due to differential rent rises (under HAP) and health costs due to ineligibility for a full medical card at a salary of approximately €430.

These factors demonstrate the need for the income thresholds and tapering of supports to be reviewed with conjunction with adjustments to the National Minimum Wage rate.

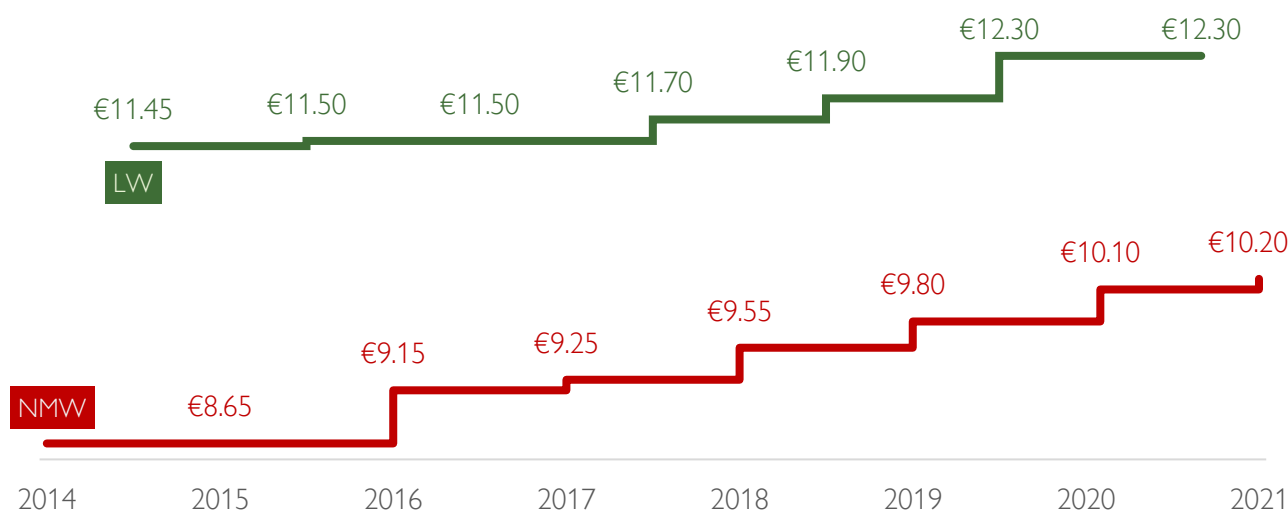
# The Living Wage

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 €12.30 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 updated Living Wage rate is published in the third quarter of each year. The 2020/21 rate remained €12.30 per hour.

Graph 1 NMW and Living Wage (LW) rate, by year



The 2021 increase of the NMW to €10.20 per hour, brings the minimum wage to 83% of the current Living Wage rate. Since first calculated in 2014, the Living Wage has increased by 7.4% from €11.45 to €12.30 per hour. In the same period, the NMW has increased by 17.9%.

The ongoing increase in overall minimum living costs mean it is likely that the Living Wage rate will increase in 2021, again widening the gap between the NMW and the Living Wage again. With the Programme for Government setting out the intent to progress to a living wage in the lifetime of this government, consideration must now be given as to how the gap between the National Minimum Wage and the Living Wage is to be bridged.

# Supports for households with children

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 an appropriate minimum wage rate, to address the additional needs of households with children, ensuring an MESL is a reality for all.

Setting an appropriate wage floor is essential, to address the needs of those without dependent children, and to set a reasonable floor for other social support mechanisms to work from.

In the deliberations of the Low Pay Commission to date, consideration has been given to the effect of changes in the NMW rate to PRSI liabilities. Similarly, adjustments to the minimum wage have been accompanied by adjustments to Universal Social Charge thresholds. However, the same consideration has not been consistently applied to the income eligibility thresholds, earnings disregards and taper rates of in-work income supports such as Working Family Payment and One-Parent Family Payment.

The impact of adjustments of the NMW rate on these supports should be considered, as a matter of course. Failure to adjust thresholds in light of NMW rate changes can result in households with dependent children receiving proportionately less benefit from minimum wage increases than other household types.

## 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 standard inflation rates, the inadequacy of the current NMW rate, the Living Wage rate (which sets a benchmark for an acceptable minimum earnings threshold), and the potential impact of NMW rate changes on in-work social welfare supports

The VPSJ recommends that the Commission consider the examination of determining an appropriate inflation rate for tracking changes in living costs for those on low incomes and / or dependent on the National Minimum Wage.

It is not the intention of this submission to advocate an immediate adjustment of the NMW rate to the Living Wage. The VPSJ recommends that the Commission consider setting a transparent rationale for determining the appropriate level of the NMW, to ensure the rate of pay is based on evidence and will provide an adequate income for a life with dignity. On that basis, a roadmap of rate adjustments which will see the progressive realisation of the NMW becoming an acceptable earnings floor can be established.



## Notes

- <sup>i</sup> DEASP (2021). Update on Payments Awarded for Covid-19 Pandemic Unemployment Payment and Enhanced Illness Benefit – February 2021, Appendices.  
<https://assets.gov.ie/124266/9348c6a5-5773-450c-b770-1277419ee5fd.pdf>
- <sup>ii</sup> CSO (2020). LFS National Minimum Wage Estimates: Quarter 4 2019. Published online.  
<https://www.cso.ie/en/releasesandpublications/er/lfsnmw/lfsnationalminimumwageestimatesq42019/>
- <sup>iii</sup> LPC (2018). Recommendations for the National Minimum Wage. Page 1.
- <sup>iv</sup> The 2020 MESL data is published on-line: [www.budgeting.ie/publications/mesl-2020/](http://www.budgeting.ie/publications/mesl-2020/)
- <sup>v</sup> Central Bank (2021). Quarterly Bulletin: QB1 – January 2021.  
<https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2021/quarterly-bulletin-q1-2021.pdf>
- <sup>vi</sup> Dept. of Finance (2020). Budget 2021: Economic and Fiscal Outlook.  
[budget.gov.ie/Budgets/2021/Documents/Budget/Budget%202021\\_Economic%20and%20Fiscal%20Outlook.pdf](http://budget.gov.ie/Budgets/2021/Documents/Budget/Budget%202021_Economic%20and%20Fiscal%20Outlook.pdf)
- <sup>vii</sup> Kouvaras, O. et al. (2020). *Consumption patterns and inflation measurement issues during the COVID-19 pandemic*, in ECB Economic Bulletin, Issue 7/2020.  
[https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202007\\_03~e4d32ee4e7.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202007_03~e4d32ee4e7.en.html)
- <sup>viii</sup> Callan, T. & Colgan, B. (2015). ESRI Research Note: The Distributional Impact of Inflation: 2003-2014.  
[www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014](http://www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014)
- <sup>ix</sup> Lawless, M. and Morgenrot, E. (2018). Brexit and Irish consumers.  
[www.esri.ie/system/files/media/file-uploads/2018-03/QEC2018SPR\\_SA\\_Lawless.pdf](http://www.esri.ie/system/files/media/file-uploads/2018-03/QEC2018SPR_SA_Lawless.pdf)
- <sup>x</sup> McEvoy, O., Mac Mahon, B. and Thornton, R. (2020). *2018/19 Review and Rebase of the Minimum Essential Standard of Living*, Dublin: VPSJ, <https://www.budgeting.ie/publications/mesl-review-rebase-20182019/>
- <sup>xi</sup> Thornton, R. and Boylan, H. (2020) *MESL Review & Rebase: Examining the accuracy of inflation adjustment and quantifying the impact of basket changes*. Dublin: VPSJ,  
<https://www.budgeting.ie/publications/examining-the-accuracy-of-inflation-adjustment-and/>
- <sup>xii</sup> 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.  
Housing Assistance Payment scenario housing cost are based on payment of differential rent and a top-up, see xiii.  
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.  
2020 MESL Expenditure budgets are available on [budgeting.ie](http://budgeting.ie)  
2021 Forecast MESL is based on the 2020 MESL and most recently available average rent data, 2020 Q3.
- <sup>xiii</sup> Under HAP the tenant pays a differential rent, calculated on the basis of income, the tenant is also required to pay the difference between the HAP rent limit and actual market rent payable for their accommodation. The current HAP rent limit in Dublin for a single person is €660 per month, approximately half of the average rent for a one-bedroom dwelling in Dublin.
- <sup>xiv</sup> The Minimum Income Standard for a household is the gross salary point where total household income meets the MESL expenditure need of the specified household type. The MIS calculation is iterative, assessing income adequacy on the basis of incremental increases in salary. Each iteration examines a €0.10 incremental increase in hourly salary. The MIS calculation assesses PAYE income tax liability, PRSI contribution and amount of USC payable, and eligibility for relevant social welfare supports, housing supports, medical card, etc.