

Key Points

The 2020 increase to the National Minimum Wage (NMW) of €0.30 per hour increased the gross rate by 3.1%. This provides a 1.8% increase in net earnings for a full-time minimum wage worker.

In 2019, the cost of a socially acceptable minimum essential standard of living increased by 4.8%, for a single adult working-age household, when paying a market rent^{ix}. Inflation, as measured by the CPI, was 1.1% for the same period.

CPI is not an appropriate indicator of the change in need for those in low income situations and / or reliant on the National Minimum Wage. Inflation, and changes in the overall cost of living, are felt differently by various social groups and at different income levels. The CPI rate tends to under-estimate changes in the cost of an MESL.

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.

Income inadequacy from minimum wage employment is forecast to worsen in 2020. Net income for a single adult in full-time minimum wage employment met 72.9% of MESL need in 2019. This is estimated to fall to 72.7% in 2020 due to increases in minimum living costs exceeding the rate of increase in the NMW.

In 2020, a single working age adult without dependents will need to work 61 hours per week, when earning the minimum wage, in order to afford an MESL when living in Dublin.

The 2020 National Minimum Wage is €2.20 below the hourly Living Wage rate of €12.30.

The VPSJ again calls on 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.

Introduction

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

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.

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 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. Other policy mechanisms must be implemented to address significant contributory factors for family households. These include measures to ensure the affordability of childcare, examining the thresholds, taper rate, and adequacy of in-work income supports such as the Working Family Payment and One-Parent Family Payment, and ensuring access to adequate, secure, and 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”¹ 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 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.

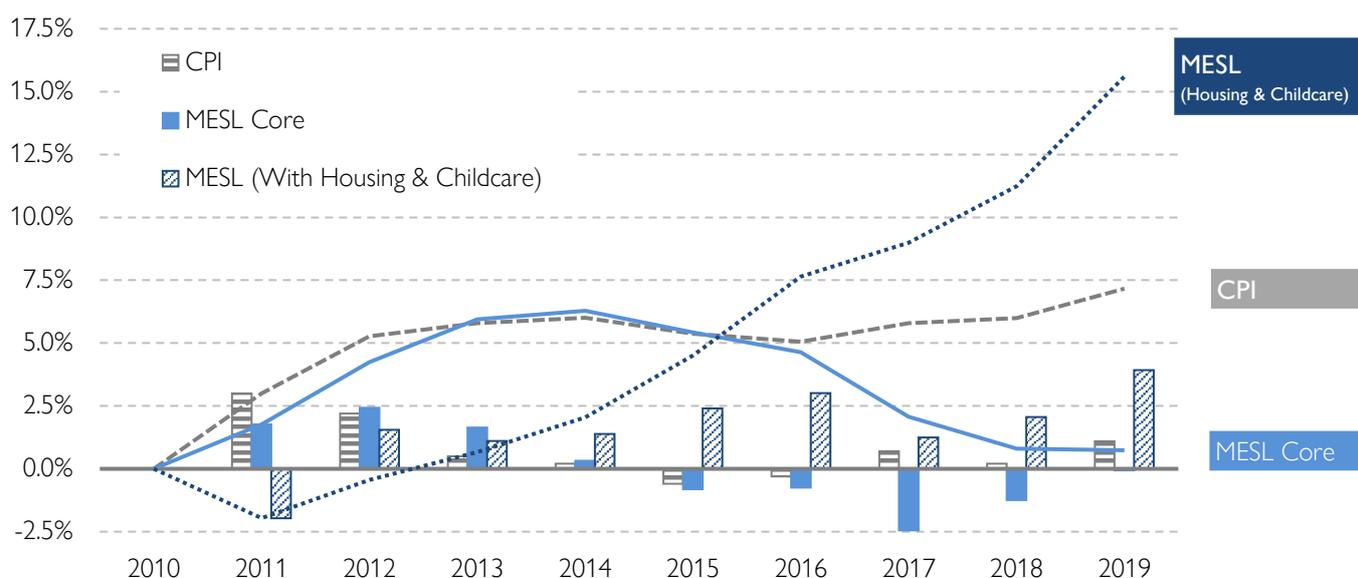
The recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing MESL research. This submission is based on the 2019 MESL data and analysis of income adequacy. The MESL 2019 update reportⁱⁱ provides detailed analysis of the minimum expenditure and 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.

Measuring changes in living costs, MESL vs CPI Inflation

There is a body of evidenceⁱⁱⁱ which demonstrates that inflation, and changes in the overall cost of living, are felt differently by various social groups and at different income levels. Broadly speaking, this is due to the average basket of goods used to measure inflation generally, the CPI, not reflecting the specific basket needed and consumed by different groups in society. On average, increasing costs in one area, for example food or household energy, may be offset (at least partially) by reducing costs in other areas, for example mortgage interest rates, and thus overall CPI rates may show marginal change from year to year. However, particular groups may experience notable increases in their living costs as their particular consumption needs leave them more vulnerable to rising costs in for example food and energy, without benefiting from the decreasing cost in other areas.

It is likely that those on low incomes, reliant on social welfare and/or low paid employment, will experience a greater increase in minimum living costs than that predicted by average inflation measures. During the ‘great recession’ lower income households experienced higher rates of inflation than the national average or that experienced by higher income households.^{iv} Recent, ESRI analysis has shown that low income households are especially vulnerable to post-Brexit food price increases.^v

Graph 1 Cumulative & annual change in MESL & CPI



The MESL research has tracked the changes in the cost of a Minimum Essential Standard of Living against average price changes, as measured by the CPI, and has found that the CPI rate tends to under-estimate changes in the cost of an MESL.

By its nature the MESL basket is more limited and concentrated on basics such as food and home energy, than the average consumer basket. Approximately 40% of the CPI is comprised of goods and services which are not part of the MESL basket.^{vi} Changes in prices effect the overall cost of an MESL differently from the national average measured by 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 graph above illustrates the annual and cumulative change in prices as measured by the CPI, compared to the average change in urban MESL expenditure need. The change in MESL need is tracked in the core MESL (excluding housing, childcare and the effect of secondary benefits), and for scenarios which include private rented housing and childcare.

From 2018 to 2019 there was a 3.9% increase in the average net cost of an MESL (including private rent^{vii} and childcare^{viii}). For the same period, MESL Core¹ costs were effectively unchanged (reducing by an average of -0.06%). The average change in prices measured by CPI showed an increase of 1.1%.

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 CPI is 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.

¹ Excludes housing, childcare and effect of secondary benefits

National Minimum Wage Adequacy

The 2020 increase in the National Minimum Wage rate of €0.30 brings the rate to €10.10 per hour, a 3.06% adjustment from the 2019 rate.

When in full-time employment (37.5 hours) gross weekly salary increased by €11.25 in 2020 due to the NMW change. The 3.06% adjustment in the gross NMW rate has resulted in a 1.84% increase in net income for a full-time minimum wage worker in 2020. The Marginal Effective Tax Rate on the increase in the NMW, for a single full-time worker, is 43%.

Table 1 Single Adult MESL Expenditure Need & Full-Time NMW Adequacy^x

	90% Average Market Rent			Housing Assistance Payment		
	2018	2019	2020 f	2018	2019	2020 f
MESL EXPENDITURE						
MESL (CORE)	218.06	218.07	220.04	218.06	218.07	220.04
HOUSING	237.81	259.61	268.02	132.11	154.70	164.12
TOTAL MESL	455.87	477.68	488.06	350.16	372.78	384.15
NMW INCOME (Full-Time, 37.5 hours)						
GROSS SALARY	358.13	367.50	378.75	358.13	367.50	378.75
USC	8.13	10.01	12.26	8.13	10.01	12.26
PRSI	3.70	3.89	4.11	3.70	3.89	4.11
PAYE	3.35	5.28	7.61	3.35	5.28	7.61
NET	342.95	348.32	354.77	342.95	348.32	354.77
INCOME ADEQUACY						
Net Income - Total MESL	-112.92	-129.36	-133.29	-7.21	-24.45	-29.38
Net Income as % MESL	75.2%	72.9%	72.7%	97.94	93.4%	92.3%

In 2019 the cost of a socially acceptable minimum standard of living increased by 4.8%, from 2018, to €478 per week for a working-age single adult (when living in the Dublin area and paying 90% of average rent for a one-bedroom dwelling). This increase was driven by housing costs. It is forecast that the cumulative change from 2018 to 2020 will be over 7%.

As a result of rising costs, primarily rents, the adequacy of income from the NMW has fallen in this period, and met 72.9% of MESL need in 2019. Inadequacy is forecast to further deepen, with the net salary from full-time NMW employment meeting 72.2% of MESL need in 2020.

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^x. However, net income from full-time minimum wage employment would continue to fall short of MESL need. In this scenario, in 2019, NMW net income met 93.4% of MESL need, this is forecast to reduce to 92.3% in 2020.

Based on the current forecast MESL costs for 2020, a single adult would need to have over 60 hours of paid NMW employment per week in order to afford an MESL in Dublin in the coming year. In a HAP scenario this would be reduced to 45 hours.

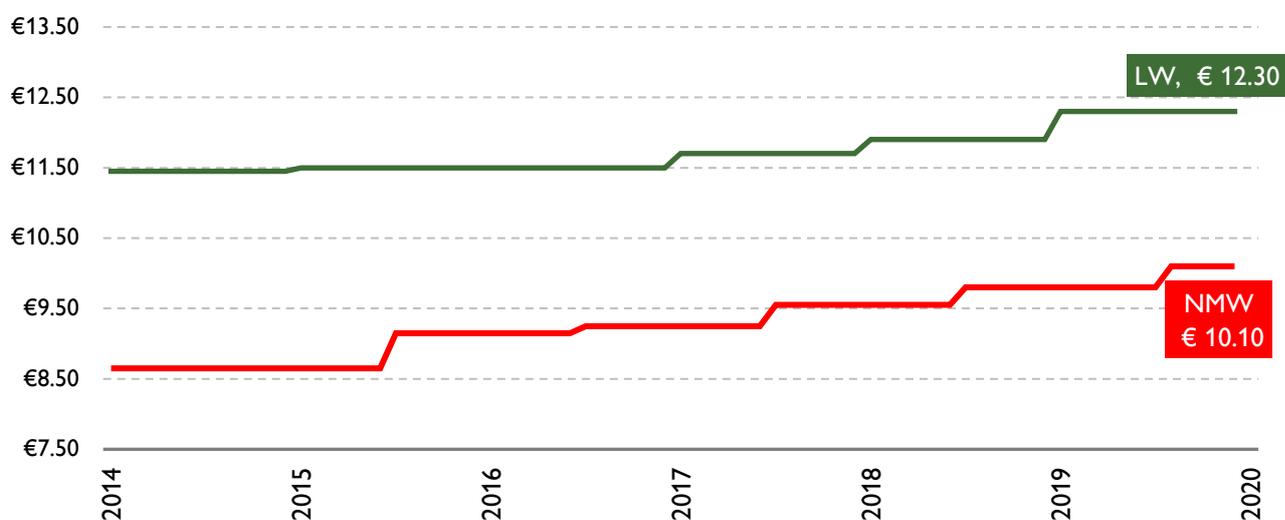
The Living Wage

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 annual Living Wage rate is published in July of each year. In 2019 the rate increased to €12.30 per hour.

Graph 2 NMW and Living Wage (LW) rate



The 2020 increase of the NMW to €10.10 per hour, brings the minimum wage to €2.20 below (or 82% of) the 2019/20 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 2020 widening the gap between the NMW and the Living Wage again.

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 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 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. The variation in recent rate increases fail to provide any certainty into the future for either workers or employers.

Notes

-
- ii LPC, 2018. Recommendations for the National Minimum Wage. Page 1.
 - ii VPSJ, 2019. MESL 2019 Update Report. Published on-line www.budgeting.ie/publications/mesl-2019/
 - iii For examination of the UK experience see:
Smith, Z. and Crawford, I. (2002) *Distributional Aspects of Inflation*, London: The Institute for Fiscal Studies
Levell, P. and Oldfield, Z. (2011) *The spending patterns and inflation experience of low-income households over the past decade*, London: The Institute for Fiscal Studies
ONS (2014) *Variation in the Inflation Experience of UK Households: 2003-2014. Estimates of the inflation rates experienced by different types of household in the UK*.
www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/compendium/variationintheinflationexperienceofukhouseholds/2014-12-15
 - iv 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
 - v Lawless, M. and Morgenrot, E. (2018) Brexit and Irish consumers. www.esri.ie/system/files/media/file-uploads/2018-03/QEC2018SPR_SA_Lawless.pdf
 - vi Food represents an average of 23.1% of the MESL basket, household energy 11.2% and public transport 10.6%, these areas represent 10.3%, 3.8% and 1.0% of CPI basket respectively.
 - vii Based on 90% of the average Dublin rent for a dwelling size appropriate to the household composition.
 - viii Where required by the household composition.
 - 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.

Housing Assistance Payment scenario housing cost are based on payment of differential rent and a top-up, see below.

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 & 2019 MESL Expenditure from Annual MESL Update reports, available on budgeting.ie
2020 Forecast MESL Expenditure is based on the 2019 MESL adjusted for forecast inflation of 0.9%
 - x 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.