



LIVING WAGE TECHNICAL GROUP

Living Wage Forum
30th September 2015

Technical Group Presentation

1. Calculating the Living Wage Rate

Robert Thornton Vincentian Partnership for Social Justice

2. Life on a Living Wage

Dr Nat O'Connor University of Ulster

3. Some Implications of the Living Wage

Dr Micheál Collins Nevin Economic Research Institute





CALCULATING THE LIVING WAGE RATE

Robert Thornton

Vincentian Partnership for Social Justice

What is the 'Living Wage'?

The Living Wage is based on the concept that work should provide an adequate income to enable individuals to afford a socially acceptable minimum standard of living.



The Living Wage Technical Group

- Established method for calculating national Living Wage rate
- Updates the Living Wage rate annually
- Reviews the calculation method & welcomes feedback

The Living Wage Technical Group is supported by:



Living Wage

- Gross salary required by a Single Adult in full-time employment, across the country
- Families have additional and different needs
- These are demonstrated in the calculation of Family Living Income
- These additional needs must be met through a combination of salary and social supports



Calculating the Living Wage

- It is calculated on the basis of the Minimum Essential Standard of Living research in Ireland, conducted by the VPSJ
- The MESL data uniquely provides an evidence based measure for assessing the minimum income need of households in Ireland
- The 'Living Wage' is the average gross salary needed for a single person to afford a minimum standard of living



Minimum Essential Standard of Living

- VPSJ has conducted Consensual Budget Standards research since 2004

Two parts to the research:

1. **Expenditure** required for a Minimum Essential Standard of Living (*MESL*) which meets physical, psychological and social needs.
2. **Income** needed to afford the expenditure – Minimum Income Standard (*MIS*)



Minimum Essential Standard of Living



FOOD



CLOTHING



HEALTH



HOUSING



CHILDCARE



PERSONAL CARE



INSURANCE



SAVINGS



TRANSPORT



ENERGY



COMMS



EDUCATION



SOCIAL INCLUSION



HOUSEHOLD GOODS



HOUSEHOLD SERVICES



PERSONAL COSTS

- Standard which no one should be expected to live below
- Focus Groups
- Emphasis is on needs & not wants
- Cost is based on actual price of detailed basket of over 2,000 goods & services

Regional Differences

- The minimum expenditure required varies in different parts of the country
- This is due to the different cost of the items required to enable this minimum essential standard of living in different regions, and some regional variation in what is required
- MESL data includes Urban & Rural needs
- Most significant differences are in Housing and Transport

Minimum Income Standard

- This is the gross income a household needs in order to afford a minimum standard of living. It takes account of the potential tax liability and social welfare entitlements of the household in question
- Model established in 2012 *A Minimum Income Standard for Ireland* research project, conducted by VPSJ in co-operation with TCD



Regions

DUBLIN Dublin City & Suburbs, and other towns in Dublin County

CITIES The City & Suburbs of Cork, Galway, Limerick & Waterford

TOWNS All towns with a population of 5,000 and above
(excluding those towns in Dublin)

RURAL All towns & villages with a population of under 5,000 and all other rural areas

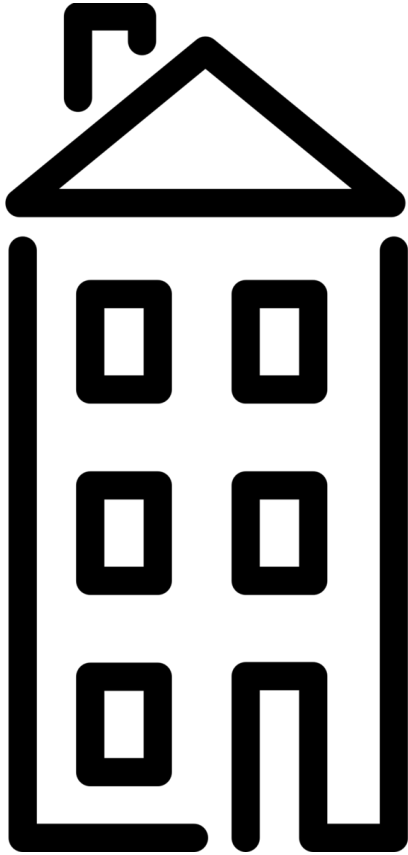


Calculating the Living Wage rate

- The core weekly cost of a Minimum Essential Standard of Living is compiled for each region
- The appropriate minimum housing cost is identified for each region
- The Minimum Income Standard salary rate required to afford the cost of an MESL is calculated for each region
- The Living Wage rate is calculated from this range of MIS rates by producing an average wage requirement, weighted by the proportion of the labour force in each region



Housing



- Private Rented
 - 1 bed dwelling type for Single Adult
 - Data from PRTB
 - 90% of the average price for each region
 - Rent accounts for 20% to 42% of overall expenditure
-

Transport

Dublin & Other Cities

- Public Transport
 - Leap Card (Dublin)
 - Monthly Bus Ticket (12 per year)
 - Night bus or Taxi share once a week



Towns & Rural

- Car
 - Small used car, e.g. Nissan Micra
 - Tax & Insurance
 - An allowance for fuel
 - Annual Service
 - NCT



Living Wage 2015 Calculation

	DUBLIN	CITIES	TOWNS	RURAL
Weekly Expenditure Need	431.33	359.55	385.46	368.90
Annual Gross Salary	26,536.65	21,249.66	23,079.77	21,859.70
Weighting	0.2922	0.0905	0.1986	0.4188

LIVING WAGE	Actual	Rounded
Gross per annum	23,413.23	
Gross per week	449.05	
Gross per hour	11.51	11.50



Annual Update

- Living Wage rate is updated annually
- Follows the cost of a socially acceptable minimum standard of living

Key Factors in 2014 to 2015 change



Reduced Costs:

Transport

Energy

Food

Reduced USC



Increased Costs:

Housing



Limit on Annual Increase

- Recognition of employers need for degree of certainty on labour costs
- Ceiling on annual increase
- Living Wage cannot increase at a greater level than average hourly earnings in the private sector
- 2015 ceiling Private hourly earnings up 0.6%
- 2015 LW Living Wage rate up 0.4%
ceiling did not apply



Family Living Income

- Calculated in same manner as Living Wage
- All adults in household employed Full-Time
- MESL expenditure and MIS salary calculated for a set of common family household compositions
- Establish the range of gross salary need for each composition
- Also take account of social welfare entitlements



Family 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

One Parent, 2 Children

Pre-School, Primary



Childcare Cost

- Family Living Income calculation is based on all adults in household being employed full-time
- Childcare can amount to over 37% of family households minimum expenditure need
- Infant & Pre-School cost is based on private childcare
- Primary School age cost is based on care from relative/friend

Housing

- Due to current level of social housing provision, Family Living Income is also calculated on basis of private rented housing
- 90% of the average price for each region, of appropriate sized dwelling
- This combined with high cost of childcare greatly increases the salary required to afford an acceptable minimum standard of living

FAMILY LIVING INCOMES - Annual Gross Salary Per Adult

Family Type	€ from	€ to
Two parents and one child (an infant)	20,845	25,925
Two parents and two children (one in pre-school and one in primary)	20,640	26,230
Two parents and three children (an infant, one in pre-school and one in primary)	28,875	36,500
Two parents and four children (two in primary school and two in secondary school)	28,265	32,130
One parent and one child (in primary school)	20,435	32,025
One parent and two children (one in pre-school and one in primary school)	35,280	50,835



LIFE ON A 'LIVING WAGE'

Dr Nat O'Connor
University of Ulster

Life on a 'Living Wage'?

- A socially acceptable minimum standard of living.
- Enough to meet basic needs (physical, psychological and social), not wants.
- A set of basic goods and services (across 14 categories) to meet those needs.



Weekly Expenditure (Single Adult)

Category of Goods/Service	Weekly Cost (Urban)	Example items
1. Food	€55.51	Enough for a healthy diet, mostly from German discounter stores: fruit and veg, 3 eggs/week, one jar coffee/6 weeks, 2l milk/week, one deli lunch (€5.60)/week, Sunday lunch (€10)/6 weeks
2. Clothing	€10.06	One shirt (€15)/year, 6 pairs of socks/year, one pair of shoes (€30)/year, one jumper (€24) every 2 years
3. Personal Care	€13.40	One shower gel/2 weeks, one toothpaste/4 weeks, one haircut/4 weeks, one comb/5 years
4. Health	€4.07	Two GP visits/year, one optician visit/2 years, one dentist visit/year, 2 boxes paracetamol/year



Weekly Expenditure (Single Adult)

5. Household Goods	€14.24	Table and chairs (€199)/15 years, one kettle (€27)/5 years, 3 saucepans (€40)/20 years, one TV (€119)/10 years , 16 batteries/year
6. Household Services	€6.63	Waste charges, water charges – net of water conservation grant (€60), window cleaning, boiler service
7. Communications	€9.33	Mobile phone (€60)/3 years, phone/Internet credit €20/week, Internet connection €20.32/4 weeks, 30 stamps/year
8. Social Inclusion and Participation	€38.24	TV licence (€160)/year, 4 DVD rentals/year, 2 books/year, swimming/2 weeks, play football 1/week, socialising €15/week, one holiday (one week in Galway/year costing €500 total)
9. Education	€5.19	Laptop (€479)/5 years, training course (€120/year)



Weekly Expenditure (Single Adult)

10. Transport	€24.89 -52.06	LEAP card (e.g. €105/4 weeks in Dublin), night bus (€5) 1/week [Car required in rural areas and towns, €5950/6 years plus taxes, petrol, etc.]
11. Household Energy	€29.02	Electricity €16.45/week, gas €12.57/week
12. Personal Costs	€7.60	Donations to charity €2/week, trade union subscription €2.80/week, passport fee €80/10 years
13. Insurance	€13.29	Home contents (€100.56/year), private health insurance – with GP Visit Card (€585/year)
14. Savings and Contingencies	€11.53	Credit union savings €5/week, contingencies €5/week

Life on a 'Living Wage'

- The detailed list of goods and services underpinning the minimum essential standard of living – including prices from the most economical shops – is available for scrutiny.
- The reality is that many people on low incomes – including full-time workers on close to the minimum wage – go without a basic goods and services that others take for granted.
- A Living Wage offers full-time workers a minimum, dignified – but frugal – standard of living.
- Any 'comforts' or luxury items have to be paid for by going without necessities.
- Any unexpected costs, loss or breakages, put real pressure on weekly budgets. Likewise, purchases of more expensive items require careful budgeting and may involve expensive credit.





SOME IMPLICATIONS OF THE LIVING WAGE

Dr Micheál Collins

Nevin Economic Research Institute

Some Implications

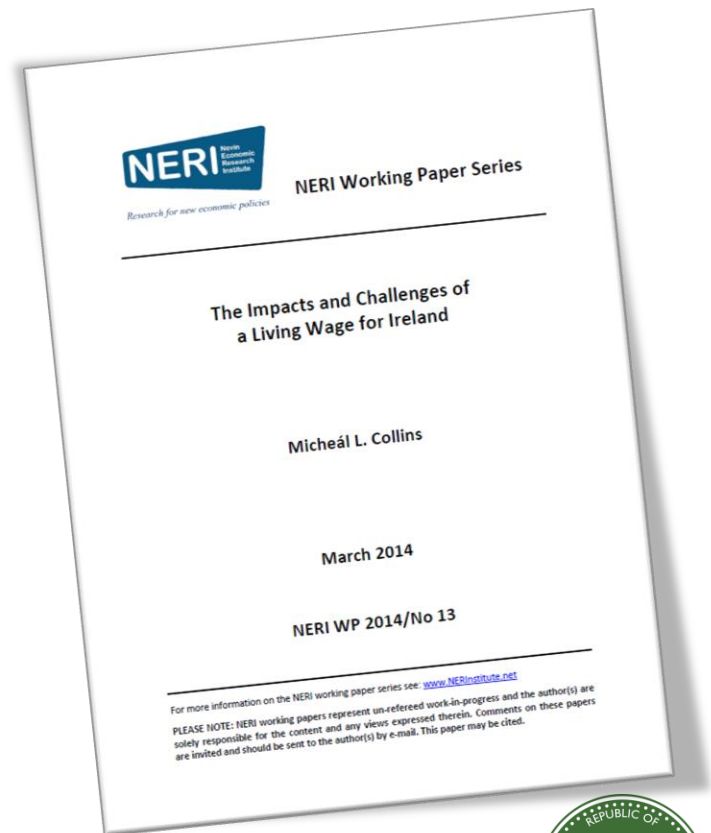
2 Perspectives

- i. On employees, employers and the state
- ii. Effect of changes in living costs on the Living Wage



(i) On employees, employers and the state

- NERI research paper
(March 2014)
- based on international
research literature



- **On the individual / employees**

- Earnings ↑

- e.g. ↑ €1 per hour = + €1,950+ per annum
- multiple of any tax/welfare change(s)
- 25% employees below LW (345,000)

- Non-financial

- ↑ human capital, ↑ stability, ↑ well-being

- Limited employment effects...



- **On the employer**

- Some interesting *ex post* studies

- London, various US cities...

- wage bill ↑

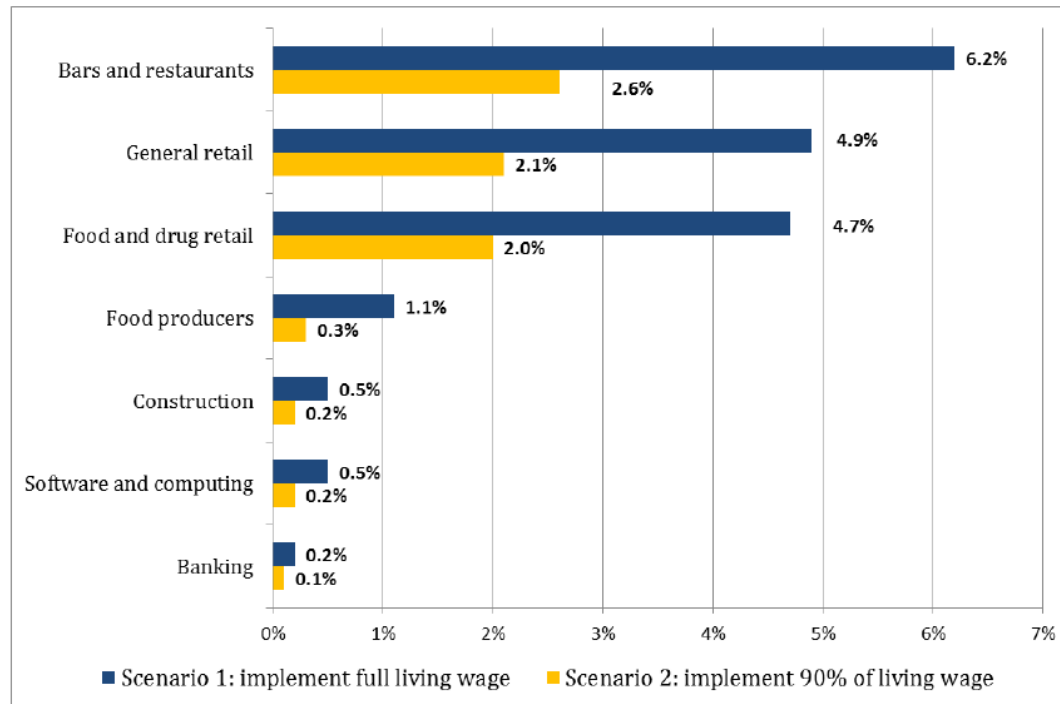
- limited effects on: turnover/sales, profits, prices and output

- ↓ staff turnover, ↓ spend on recruitment, ↓ absenteeism, ↑ internal reorganisation, some productivity gains



– UK study that modelled wage bill effects

Chart 1: Estimated Average Firm-Level Wage Bill Increase from a Living Wage



Source: Pennycook (2012:11)



- **On the state**

- a major gainer

- ↑ income tax and social insurance revenues
 - ↑ indirect taxes (as most/all € spent)
 - ↓ state expenditure on transfers and other supports for low income households

- the state as a living wage employer

- councils absorb via reorganisation not rates
 - negligible impact on budgets



(ii) Effect of changes in living costs on the Living Wage

- the Living Wage is derived from a calculation of living costs, so when these change the living wage changes
- 3 simple examples...

- ***Leap Card reforms***

- restructured in early 2015
- now possible to load weekly tickets
- cheaper than before
- ↓ urban transport costs
- ↓ income needed to afford Living Wage
- downward effect on the Living Wage

- ***TV Licence***

- part of Social Inclusion and Participation
- if annual cost ↑ living costs ↑
- ↑ income needed to afford Living Wage
- upward effect on the Living Wage

- **Income Tax changes**

- effects on take home pay

- if changes made this alters (↑ or ↓)
income available to afford a given standard
of living

- Budget 2015 reduced income taxes on low
income workers

- downward effect on the Living Wage



Comments & Suggestions

- The Living Wage Technical Group reviews the methodology on an annual basis
 - welcome suggestions and comments
 - happy to receive these and consider them
- Objective is a rational, recurring and repeatable estimation methodology which estimates living costs and the wage rate required to achieve these





€ 11.50 *per hour*

This is the gross hourly salary required by a single adult working full-time in Ireland in 2015 to afford a socially acceptable minimum standard of living

More information is available from:

- www.livingwage.ie
 - [Living Wage Technical Document](#)
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