

Phase in of the Living Wage – Strawman Proposal

There is a commitment in the Programme for Government to progress to a living wage.

At the request of the Tánaiste, the Low Pay Commission recently made a number of recommendations on the phase in of the living wage which included:

- Adopting a fixed threshold approach for the calculation of a living wage (as opposed to a Minimum Essential Standard of Living / “basket of goods” approach) and setting the fixed threshold at 60% of the median wage in the economy;
- Progressing to a living wage of 60% of the economy-wide median wage through a gradual adjustment to the minimum wage over a period of no more than five years;
- After the 60% of the median wage target has been reached, subject to an assessment of the impact of the progression to the 60%, the Commission should assess the economic practicality of gradually increasing the targeted threshold rate towards 66% of the median wage.

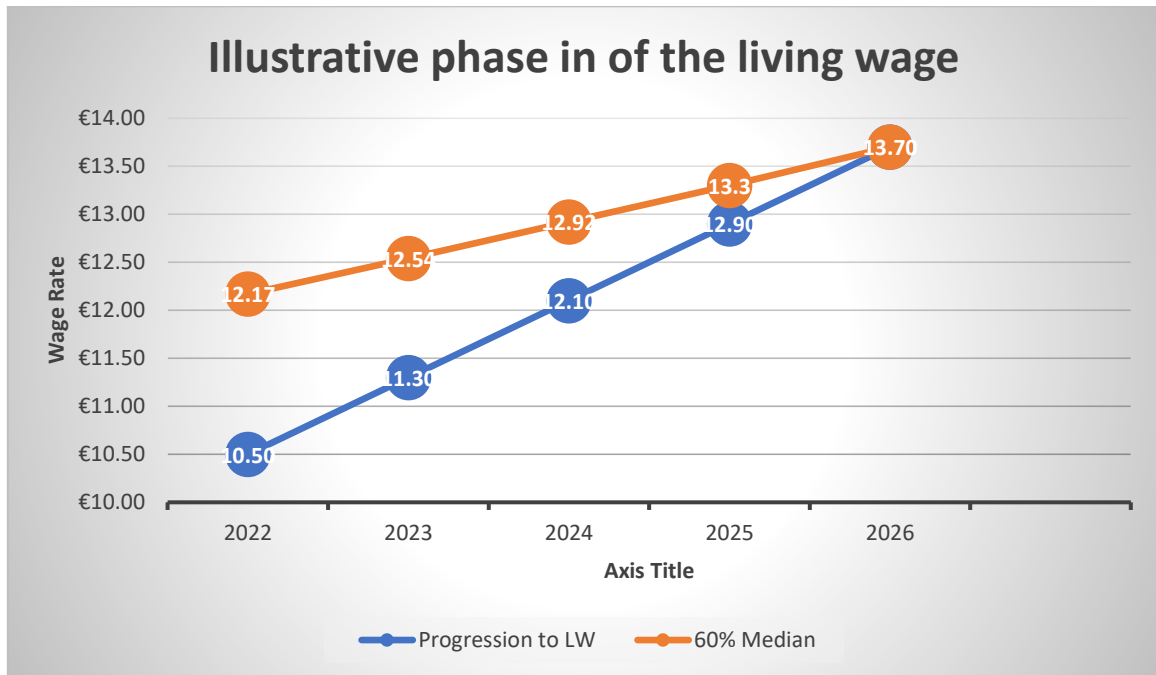
Phase in of the Living Wage

To illustrate how this might be phased in, the Low Pay Commission would each year calculate a non-statutory National Living Wage of 60% of median wages and also recommend a statutory National Minimum Wage. The statutory National Minimum Wage would be progressively increased over a period to be agreed until it reaches and becomes a statutory National Living Wage of 60% of median wages.

A living wage based on 60% of the median wage for all workers in Ireland in 2020 would have equated to €11.52, some €1.42 or 14% above the 2020 National Minimum Wage (€10.10).

Example of a four-year phase in of the Living Wage

Under a four-year phase in (2023 to 2026) and assuming a 3% average increase in the nominal median wage, a living wage set at 60% of median wage would equate to €13.70 in 2026. This would represent a 30.5% increase over the current National Minimum Wage of €10.50 per hour and would require an average annual increase in the minimum wage of €0.80 (or 6.85%). This is illustrated in the following chart:



**Required Changes to National Minimum Wage to Reach 60% of Median Wages Over 4 Years
(Assuming 3% Annual Increase in the Median Wage to 2026)***

	2022	2023	2024	2025	2026
Median Hourly Earnings	€20.29	€20.90	€21.53	€22.17	€22.84
60% Threshold	€12.17	€12.54	€12.92	€13.30	€13.70
Annual Adjustment		€0.80	€0.80	€0.80	€0.80
NMW progressing to LW	€10.50	€11.30	€12.10	€12.90	€13.70

* Chart and figures taken from the Low Pay Commission's Living Wage Report

These figures are for illustrative purposes only. They illustrate what linear adjustments would be needed for the National Minimum Wage to reach 60% of median wage by 2026, under the assumption of a 3% rate of growth in the nominal median wage. A living wage set at 60% of median wage would be reflective of wage levels at the time and the performance of the wider economy and labour market and would ebb and flow with the economic cycle.

Estimates of median wages were calculated by uprating the 2019 median wage figure using annual growth estimates of the mean wage as reported in the CSO's "Earnings and Labour Costs" releases to 2022, and by 3% subsequently.

While the above example illustrates a linear adjustment, it is proposed (as per the LPC's recommendations) that it would have discretion to use adjustment mechanisms to speed up or slow down progress towards 60% of the median hourly wage in response to any specific circumstances that have had a significant impact on economic conditions. This discretion should be subject to the target of achieving a minimum wage of 60% of the hourly median wage being reached over a period to be agreed.

A Living Wage set at 60% of median wages – next steps

When the 60% of the median wage target has been reached, the Low Pay Commission would be required to consider gradually increasing the targeted threshold rate towards 66% of the median wage.

The Low Pay Commission would consider such a progression subject to an assessment of the impact of the phase in of the 60% target finding no significant adverse effects on employment, and the increased availability of international evidence on the impact of increases above the 60% threshold.