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
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

- 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.
<table>
<thead>
<tr>
<th>Regions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUBLIN</td>
<td>Dublin City &amp; Suburbs, and other towns in Dublin County</td>
</tr>
<tr>
<td>CITIES</td>
<td>The City &amp; Suburbs of Cork, Galway, Limerick &amp; Waterford</td>
</tr>
<tr>
<td>TOWNS</td>
<td>All towns with a population of 5,000 and above (excluding those towns in Dublin)</td>
</tr>
<tr>
<td>RURAL</td>
<td>All towns &amp; villages with a population of under 5,000 and all other rural areas</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>DUBLIN</th>
<th>CITIES</th>
<th>TOWNS</th>
<th>RURAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Expenditure Need</td>
<td>431.33</td>
<td>359.55</td>
<td>385.46</td>
<td>368.90</td>
</tr>
<tr>
<td>Annual Gross Salary</td>
<td>26,536.65</td>
<td>21,249.66</td>
<td>23,079.77</td>
<td>21,859.70</td>
</tr>
<tr>
<td>Weighting</td>
<td>0.2922</td>
<td>0.0905</td>
<td>0.1986</td>
<td>0.4188</td>
</tr>
</tbody>
</table>

### LIVING WAGE

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Rounded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross per annum</td>
<td>23,413.23</td>
<td></td>
</tr>
<tr>
<td>Gross per week</td>
<td>449.05</td>
<td></td>
</tr>
<tr>
<td>Gross per hour</td>
<td>11.51</td>
<td>11.50</td>
</tr>
</tbody>
</table>
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

Increased Costs:
- Housing

Reduced USC
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 LWV: 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

<table>
<thead>
<tr>
<th>Household</th>
<th>Child Age Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two Parents, 1 Child</td>
<td>Infant</td>
</tr>
<tr>
<td>Two Parents, 2 Children</td>
<td>Pre-School, Primary</td>
</tr>
<tr>
<td>Two Parents, 3 Children</td>
<td>Infant, Pre-School, Primary</td>
</tr>
<tr>
<td>Two Parents, 4 Children</td>
<td>Two Primary, Two Secondary Level</td>
</tr>
<tr>
<td>One Parent, 1 Child</td>
<td>Primary</td>
</tr>
<tr>
<td>One Parent, 2 Children</td>
<td>Pre-School, Primary</td>
</tr>
</tbody>
</table>
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

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

<table>
<thead>
<tr>
<th>Category of Goods/Service</th>
<th>Weekly Cost (Urban)</th>
<th>Example items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Food</td>
<td>€55.51</td>
<td>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</td>
</tr>
<tr>
<td>2. Clothing</td>
<td>€10.06</td>
<td>One shirt (€15)/year, 6 pairs of socks/year, one pair of shoes (€30)/year, one jumper (€24) every 2 years</td>
</tr>
<tr>
<td>3. Personal Care</td>
<td>€13.40</td>
<td>One shower gel/2 weeks, one toothpaste/4 weeks, one haircut/4 weeks, one comb/5 years</td>
</tr>
<tr>
<td>4. Health</td>
<td>€4.07</td>
<td>Two GP visits/year, one optician visit/2 years, one dentist visit/year, 2 boxes paracetamol/year</td>
</tr>
</tbody>
</table>
## Weekly Expenditure (Single Adult)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5. Household Goods</strong></td>
<td>€14.24</td>
<td>Table and chairs (€199)/15 years, one kettle (€27)/5 years, 3 saucepans (€40)/20 years, one TV (€119)/10 years, 16 batteries/year</td>
</tr>
<tr>
<td><strong>6. Household Services</strong></td>
<td>€6.63</td>
<td>Waste charges, water charges – net of water conservation grant (€60), window cleaning, boiler service</td>
</tr>
<tr>
<td><strong>7. Communications</strong></td>
<td>€9.33</td>
<td>Mobile phone (€60)/3 years, phone/Internet credit €20/week, Internet connection €20.32/4 weeks, 30 stamps/year</td>
</tr>
<tr>
<td><strong>8. Social Inclusion and Participation</strong></td>
<td>€38.24</td>
<td>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)</td>
</tr>
<tr>
<td><strong>9. Education</strong></td>
<td>€5.19</td>
<td>Laptop (€479)/5 years, training course (€120/year)</td>
</tr>
</tbody>
</table>
# Weekly Expenditure (Single Adult)

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Transport</td>
<td>€24.89</td>
<td>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.]</td>
</tr>
<tr>
<td>11. Household Energy</td>
<td>€29.02</td>
<td>Electricity €16.45/week, gas €12.57/week</td>
</tr>
<tr>
<td>12. Personal Costs</td>
<td>€7.60</td>
<td>Donations to charity €2/week, trade union subscription €2.80/week, passport fee €80/10 years</td>
</tr>
<tr>
<td>13. Insurance</td>
<td>€13.29</td>
<td>Home contents (€100.56/year), private health insurance – with GP Visit Card (€585/year)</td>
</tr>
<tr>
<td>14. Savings and Contingencies</td>
<td>€11.53</td>
<td>Credit union savings €5/week, contingencies €5/week</td>
</tr>
</tbody>
</table>
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

- Bars and restaurants: 6.2%
- General retail: 4.9%
- Food and drug retail: 4.7%
- Food producers: 1.1%
- Construction: 0.5%
- Software and computing: 0.5%
- Banking: 0.2%

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
  – Downward effect on 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
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.

€11.50 per hour

For more information and the Living Wage Technical Document visit www.livingwage.ie