

National Minimum Wage Submission to the Low Pay Commission (March 2022)

Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission on the National Minimum Wage (NMW) to the Low Pay Commission. CIB has, in previous years, made submissions to the Commission relating to the setting of the NMW and on other related matters.

This submission is informed by the experience of and feedback from CIB-funded services – the national network of Citizens Information Services (CISs), the Citizens Information Phone Service (CIPS) and the Money Advice and Budgeting Service (MABS) – each of which has a significant engagement with individuals and households at the lower end of the income spectrum. These services supported over half a million people with information, advice and advocacy, including money advice in 2021 and dealt with 855,000 queries. This includes callers to CISs, the Phone Service and callers via a web Call Back facility.

CIB-funded services are well-positioned to witness and report on the particular problems faced by people in low-income work, people who experience difficulties in transitioning from welfare to work and over-indebted families in low-income employment struggling to repay their debts and mortgages. CISs and CIPS also deal on an on-going basis with people combining low income part-time or casual work with social welfare payments in order to maximise household income.

Many clients of CIB-funded services present with multi-faceted queries and problems. The range of individual cases provides insights into how well various support systems and mechanisms – such as the NMW and social welfare provisions – combine and interact in aggravating or solving problems for people who are experiencing financial hardship and/or stress and how these impact over time.

In particular, the experience of people who find themselves located between low-paid/precarious employment and social welfare benefits - which is regularly reflected in queries to CISs, the Phone Service and in MABS casework - provides insights that can inform the Commission's ongoing deliberations on the NMW.

Citizens Information Services (CISs) dealt with almost 60,000 employment related queries in 2021 and 70,000 in 2020. In 2021, almost two-thirds (64%) of these queries related to employment rights and conditions (including leave/holidays, contracts of employment, pay/wages), 13% to unemployment and redundancy, and 6% to self-employment issues. CISs regularly receive complaints about breaches of NMW legislation.

Covid-19 brought into sharp focus employment issues relating to hours of work, low wages, precarious employment, including, for example, workers with inadequate hours having to take on two or three jobs; and workers with poor conditions of employment in general (e.g. sick pay,

insecure contracts, pensions). This is compounded for those with parenting and caring responsibilities, who are predominantly women.

Challenges in achieving adequate income

Feedback from CIB-funded services strongly indicates that, where the only available work is low-income work (minimum wage level or below), this acts as a disincentive to people taking up employment. Many people contacting CISs experience 'welfare to work' traps and difficulties in meeting living costs, especially lone parents and young people living independently from their parents.

A substantial number of queries that CIB-funded services deal with involve people who survive financially on an often complex blend of social welfare payments and income from part-time, low-pay employment. The eligibility requirements for various social welfare payments often result in situations where, in the event of a person gaining increased working hours in a low-pay job, there are substantial reductions in their social welfare entitlements. Cases are frequently encountered where people are obliged to resign a job or turn down increased work opportunities due to the potential loss of social welfare income.

The frequency and number of cases where a client is faced with a work-versus-welfare choice is a matter of serious concern on an ongoing basis. For particular cohorts, e.g. low wage workers including migrants, lone parents, people with disabilities, poverty traps are being created. These welfare-to-work traps are rooted in both the social welfare system and the low-pay conditions that can – at least in part – be dealt with through the setting of the NMW at a higher level.

CIB-funded services support many clients who are engaged in precarious types of employment. In addition, atypical working arrangements may not act as stepping stones to better quality and better paid employment and can thus contribute to ongoing inequality and poverty, especially for lone parents. Also, young people can be particularly impacted as they receive a lower minimum wage than adults aged over 20 years and above. Many young people contacting CISs experience 'welfare to work' traps and difficulties meeting living costs, especially if they live independently from their parents.

Income and in-work poverty

There continues to be a significant proportion of people who can be defined as 'working poor', i.e. people with jobs who are still at risk of poverty. There is only a marginal difference in the risk of poverty experienced by a significant number of people at work and those who are unemployed. Feedback from CIB-funded services consistently points to the fact that having paid work does not necessarily by itself guarantee a poverty-free existence.

Despite the overall proportion of persons who earn the NMW or lower dropping from 9.3% of the labour force in Q4 2016 to 7.6% in Q4 2018, 6.4% in Q4 2019, and 6.8% in Q4 2020¹, the number of people concerned remains significant. The actual number of persons in this category remained in excess of 123,000 in Q4 2019 and stood at a level equivalent to the 2016 figure in Q3 2020².

The pattern over multiple years shows that households comprising *One adult with children under 18 years*, and *Other households with children under 18 years*, were much more likely to be earning at or below the NMW, at between 10% and 15%. This points to a significantly higher proportion of lone

¹ Written reply by Minister for Enterprise, Trade and Employment, Leo Varadkar to Mick Berry TD, 10/02/2022

² Calculations from CSO data (Q4 2020 data not yet accessible. It is noted that Q3 2020 was complicated by COVID restrictions. <https://www.cso.ie/en/statistics/labourmarket/lfsnationalminimumwageestimates/>

parent households remaining at or below the NMW. At the other extreme, households with no children were approximately half as likely to be in the NMW category as the general average. While the share of workers on the NMW or less has stood at or slightly above 6.4% of the labour force over recent years, part-time workers are almost three times as likely to be in the NMW category (18.9% in Q4 2019), as compared to 3.2% of full-time workers. Approximately one quarter of workers in the accommodation and food sector were at or below the NMW; just over one in eight of the wholesale and retail sector was similarly at or below the NMW.

CSO SILC³ data indicates that 14.6% of those categorised as being in consistent poverty were employed. CSO SILC data also shows that the at risk of poverty rate for those who are employed was 6%, which is low compared to 32% for those who were unemployed, and 38% for those unable to work due to long-standing health problems.⁴ However, when housing costs are factored in to this poverty definition, we see that the at risk of poverty rate after deducting rent and mortgage interest increased to 10% for the employed, to 44% for the unemployed, and to 47% for those unable to work due to a long-standing health problem.

Gender inequality and pay

It is clear that the NMW level needs to be considered in the context of gender equality. Female workers are more likely to be on the NMW; to be in low-paid and part-time employment; to have childcare demands; to be in sectors of the economy that pay lower rates of pay. Women are particularly vulnerable to the risk of poor incomes, dependency on social welfare payments, and to have jobs that involve unpredictable hours and/or temporary contracts.

Of the 122,800 employees who reported earning the NMW or less in Q4 2019, 66,600 (54.2%) were female while 56,200 (45.8%) were male. This compares to an overall even split of all employees in the State of 50% each for males and females. This has been a consistent feature since 2016.

The Code of Practice on Equal Pay⁵ recently published by the IHREC, will be important in addressing gender pay inequality. The Code seeks to promote the development and implementation of procedures that establish workplaces where employees receive equal pay for like work. It provides practical guidance to employers, employers' organisations, trade unions and employees on the right to equal pay, the elimination of pay inequality, and the resolution of pay disputes. The Code is legally admissible in evidence in proceedings before the courts, the Workplace Relations Commission and the Labour Court. WRC decisions will be impacted by the degree of organisational compliance with codes of practice and the active implementation of guidelines.

Also, centrally important in the context of reducing inequalities in pay will be the Gender Pay Gap Information Act 2021⁶ which, when commenced, will require organisations with over 250 employees to report and publish information relating to their gender pay gap, and to explain why there is a gap and what measures are being taken to reduce it. In their reports, employers will be required to include details of the average and median hourly wage gap. The average pay gap will reflect the entire salary range in an organisation, while the median wage gap will exclude unusually high

³ Survey on Income and Living Conditions 2020, <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2020/povertyanddeprivation/> Table 3.6.

⁴ Survey on Income and Living Conditions (SILC) 2020, <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2020/povertyanddeprivation/> Fig.3.2.

⁵ Code of Practice on Equal Pay, https://www.ihrec.ie/app/uploads/2022/03/Codes-of-Practice-Equal-Pay-FA_Digital.pdf.

⁶ Gender Pay Gap Information Act 2021, <https://www.irishstatutebook.ie/eli/2021/act/20/enacted/en/print.html>

earners. It is reasonable to expect that this will result in greater transparency in relation to gender based pay differentials as well as other differentials. However, it must be noted that a significant number of workers in smaller enterprises (less than 250 workers) will not be covered by this legislation - although the intention is to extend over time, to organisations with 50 or more employees by 2025.

The National Minimum Wage in a comparative context

Data⁷ regarding earnings and labour costs are informative in relation to hourly rates of pay. For example, information for Q4 2021 illustrates the extent to which NMW levels lag well behind average wages in Ireland, and the extent to which certain sectors of the economy demonstrate substantially lower hourly earnings. The *average hourly earnings* for the whole of the NACE⁸ Economic Sector employees was €26.22, an increase of 2.6% on the Q4 2020 average. However, the average hourly rate for all employees in the *wholesale and retail* sector was lower, at €21.25. Most revealing, however, was the rate of €14.99 in the *accommodation and food* sector.⁹

These disparities are seen to have persisted over time and were therefore not influenced to any perceivable extent by Covid-19 restrictions. An important relevant point here from an earlier study¹⁰ estimated that 36.5% of low-pay workers were the only earners in their households. Feedback from CIB-funded services suggests that there has been little change in the profile of low-pay workers over recent years.

It is noted that the Department of Finance is reported¹¹ as wanting more of the tax burden to be shifted to the lower paid (as well as to groceries and property) in order to broaden the tax base. Any such move would have clear implications for the adequacy of the National Minimum Wage, irrespective of the level at which it was pitched.

Cost of living

CIB-funded services regularly report receiving calls from individuals and families in low paid jobs who are extremely worried about meeting the costs of daily living, e.g. rent and utility bills. There is daily evidence that the cost of living in Ireland is increasing at a significant rate. The Consumer Price Index rose by 5% in the year to January 2022¹². The most significant increases, in the context of this submission, were seen in Transport (+14%), Electricity (+22.4%), Gas (27%) and Home Heating Oil (+50%). Basic foodstuffs such as bread and butter saw increases of 10% to 13%.

The increase in the cost of private rented accommodation is well reported, initially for Dublin but increasingly for all other regions. Research¹³ has indicated that 28% of low-pay workers live in

⁷CSO. *EHQ03 Average Earnings, Hours Worked, Employment and Labour Costs*. Accessed 03 February 2022 at <https://data.cso.ie/>

⁸ Statistical classification of economic activities in the European Community,

⁹ Earnings and Labour Costs Quarterly, *Preliminary estimates for Q4 2021*, <https://www.cso.ie/en/releasesandpublications/er/elcq/earningsandlabourcostsq32021finalq42021preliminaryestimates/>

¹⁰ Collins, M (2015) *Earnings and Low Pay in the Republic of Ireland: A profile and some policy issues*. NERI. https://www.neriinstitute.net/sites/default/files/research/2019/earnings_and_lowpay_in_roi_neri_wp29.pdf

¹¹ Sunday Times Article 6 March 2022, <https://www.thetimes.co.uk/article/officials-want-irish-tax-burden-shifted-to-the-lower-paid-3st6gsbx2>

¹² CSO Press Statement Consumer Price Index January 2022, <https://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexjanuary2022/>

¹³ Collins, M (2015) *Earnings and Low Pay in the Republic of Ireland: A profile and some policy issues*. NERI.

private rented accommodation. Eurostat data (2020)¹⁴ shows consumer goods and services costing 40% more in Ireland than the EU average.

Relative to higher-income households, lower-income households spend a greater share of their income on energy and food, and less on goods and services. Energy spending, which is 14% of disposable income for low-income households, compares to 5.5% for high-income households. In the absence of changes in income, large swings in energy and food prices have a greater impact on lower income households.¹⁵ Significantly increased costs that are likely to be encountered by families with children include childcare, primary health care and going-to-school costs.¹⁶

These inflationary pressures, while impacting all families, will have a proportionately greater and more damaging effect on poorer households, including those who survive on either the NMW or on a blend of NMW and social welfare transfers. The fact that rising prices hit poorer households harder as they spend more of their income on necessities will have a corrosive effect on low-income household budgets.

Need to locate wage considerations within a broader context

Evidence from CIB-funded services suggests that the current criteria of measuring days rather than hours in paid employment for social welfare purposes lacks sufficient flexibility to allow people to combine welfare with work in their efforts to have an adequate living. The incentive to take up part-time employment is impacted by the requirement to be unemployed for 4 out of 7 days (three-day rule). The impact of this 'three-day rule' affects low wage workers, including those who have to work two to three jobs and who often did not get the hours they needed to make ends meet.

CIB has over the years regularly recommended in various Pre-Budget and other Submissions that eligibility for jobseeker's payments should be changed to criteria based on hours rather than the number of days worked, to better reflect part-time and casual work patterns. NESF has proposed that seeking work of 19 hours per week would be sufficient.¹⁷ Introducing greater flexibility in the rule of being available for full-time work and genuinely seeking work would assist in recognising that women and others often require work that is atypical, including part-time work.¹⁸

It is also the case that a transition from unemployment to part-time employment does not guarantee that a family will be lifted out of poverty and that full-time work is much more likely to do so. However, access to affordable childcare is critical in making a return to full-time employment possible for many parents.

Key considerations relevant to NMW

Low-pay work can be viewed as a stepping-stone to further and better paid employment. However, for many workers and in several sectors of the economy, the NMW is the only level of pay on offer. A substantial number of workers, especially those in part-time work, are likely to depend on

¹⁴ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services

¹⁵ Lydon, R (2022) *Household characteristics, Irish inflation and the cost of living*. Economic Letter Vol. 2022, No. 1. Central Bank of Ireland, <https://www.centralbank.ie/docs/default-source/publications/economic-letters/household-characteristics-irish-inflation-and-the-cost-of-living.pdf?sfvrsn=7>

¹⁶ Fintan O'Toole, Irish Times <https://www.irishtimes.com/opinion/fintan-o-toole-the-cost-of-living-in-ireland-is-inflated-by-bad-politics-1.4810043> 26 February 2022.

¹⁷ NESF (2020), *The Future of the Irish Social Welfare System; Participation and Protection*, http://files.nesc.ie/nesc_reports/en/151_Future_Social_Welfare.pdf

¹⁸ The ban on zero hour contracts and the introduction of banded hour contracts provide some protections for those reliant on atypical part-time work.

increases in the NMW as the only prospect for improving their hourly rates. Many of these workers must rely, in addition, on other supports from the State.

The need for the NMW to be set at the Living Wage level (calculated as €12.90 in 2021¹⁹) is obvious. The commitment of the Government to progress to a Living Wage over the lifetime of the Government, therefore, needs to be progressed with some urgency in order to realise a convergence between the NMW and the Living Wage. This is critically important because of the relatively high numbers of people ‘clustering’ just above the current NMW level in some sectors while wage increases are taking place in other sectors.

While setting a wage floor is an essential component in ensuring an acceptable standard of living for all, there is a related need to ensure that other measures necessary to deal with in-work poverty and with welfare to work traps are enhanced.²⁰ These include, in particular, social welfare reforms and the provision of other social and economic supports, such as increased investment in public childcare, housing, education, transition to work as well as the need to make sure that the correct mechanisms are put in place to mitigate adverse economic shocks. Ongoing vigilance is required around poverty proofing mechanisms.

It is reasonable to assume that any NMW increases will put money back into the domestic economy, which will potentially have a knock-on effect of stimulating job creation. Low-pay workers are most likely to have a propensity to spend rather than to invest or to save their earnings²¹.

CIB is of the view, as emphasised in previous submissions, that any impact of an appropriate increase in the NMW on employment levels, general labour costs, or the cost of living, is likely to be minimal and acceptable. Given the disparity between average hourly rates for the general population and the NMW itself, it is unlikely that an increase in the NMW will have any substantial impact on the expectations of workers whose earnings are multiples of the NMW.

In our Pre-Budget Submission 2022,²² we recommended that the Commission on Tax and Social Welfare should consider reform of the benefit and tax systems to align more with changing family/work patterns as well as considerations for individualising the tax and benefit system, particularly relevant for family payments and qualified adults. CIB believes that this would make a worthwhile contribution to alleviating child poverty, support gender equality, and move towards increasing participation in the labour market.

Summary of key points

- CIB-funded services continue to report that where the only work available is at the minimum wage, there is a disincentive to taking up employment.

¹⁹ https://www.livingwage.ie/download/pdf/living_wage_technical_document_-_2021.pdf

²⁰ See Citizens Information Board Submission to Public Consultation of the Commission on Taxation and Welfare, https://www.citizensinformationboard.ie/downloads/social_policy/submissions2021/commission-taxation-welfare.pdf

²¹ Lydon, R., McIndoe-Calder, T. (2021) *Saving during the pandemic: Waiting out the storm?* Economic Letter Vol. 2021 No. 4. Central Bank of Ireland, <https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2021-no-4-saving-during-the-pandemic-waiting-out-the-storm-reamonn-lydon-and-tara-mcindoe-calder.pdf>

²² Citizens Information Board, Pre-budget Submission 2022, https://www.citizensinformationboard.ie/downloads/social_policy/submissions2021/prebudget-submission-2022.pdf

- Structural pay inequality for women is clearly an ongoing and significant issue which should be explored further by the Low Pay Commission -- CIB considers that the NMW has particular importance in addressing, at least in part, the issue of gender equality in earnings.
- CIB believes that there is a real need to ensure that the setting of the NMW is viewed as one part of a joined-up set of instruments - that also include social supports, taxation measures, and social welfare transfers – aimed at securing a basic, decent living standard for all working households.²³ The Report of the Commission on Taxation and Welfare will be particularly important in this regard.
- CIB sees the NMW as a crucial component in enabling a welfare-to-work transition for people who are on low incomes.
- There is a need to ensure that the setting of a new NMW takes account of both the actual increases in the cost of living and the probability of volatile increases arising from sudden events such as Covid-19 and international tensions.
- CIB believes that in setting a new NMW there is a need to focus in particular on the specific costs and expenses experienced by people on low incomes, as opposed to more general measures of inflation or price increase.
- Ongoing consideration of the National Minimum Wage needs to factor in the respective contributions of the tax and social welfare systems and related in-work supports, (e.g. Working Family Payment and Housing Assistance Payment) and consider how best to achieve the optimum balance between wages and these supports in combating poverty and dealing with welfare traps.
- There is a need to factor in childcare and housing-related costs in the conception of an adequate response to in-work poverty.
- Some types of employment, such as atypical working, self-employment, casual and part-time work, work at or below the National Minimum Wage, can in fact be poverty traps – a transition to a Living Wage is necessary to reflect the real costs of living.
- There is a need to continue to address the following endemic issues in an integrated and targeted manner:
 - The intrinsic link between poverty, under-employment and low-income employment
 - The elimination of welfare-to-work traps
 - Making work pay for all people who wish to and are available for work

²³ See CIB Submission to the Public Consultation of the Commission on Taxation and Welfare, https://www.citizensinformationboard.ie/downloads/social_policy/submissions2021/commission-taxation-welfare.pdf

- Ensuring that all employers have an ethos and culture of all workers deserving and having a reasonable and fair wage

Finally, the current NMW is not fully reflective of increases in the costs of living relating to, for example, private housing rents, energy costs and childcare costs, as they apply disproportionately to low-income households. Nor does the NMW cater for the level of volatility and uncertainty that was created by events such as Covid-19 and Brexit over the past two years. The repercussions arising from the Russian invasion of Ukraine in the most recent past will undoubtedly present significant challenges in relation to identifying an adequate National Minimum Wage in the context of what will almost certainly be a need for a significant raising of the Living Wage. The level at which the NMW is pitched will also need to take into account wage increases arising from an increasing demand for workers in areas where there is higher-paid employment in order to ensure that underlying principles of equality and meaningful social inclusion are applied to all workers.