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# NATIONAL MINIMUM WAGE

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Submission to the Low Pay Commission

FEBRUARY 9, 2018  
SVP SOCIAL JUSTICE AND POLICY TEAM

## Introduction

The Society of St Vincent de Paul (SVP) welcome this opportunity to contribute to the consultation on the National Minimum Wage (NMW). SVP is the largest charity of social concern in Ireland and the primary aim is to provide direct assistance to low income households. Informed by the experiences of our members and people we assist, we work towards addressing the root causes of poverty and inequality through our policy and advocacy work.

In-work poverty is a key concern of SVP and in 2016, 36% of those living below the poverty line and 55% of those experiencing deprivation were living in households where at least one person was at work (CSO, 2017).<sup>1</sup> Rates of in-work poverty are roughly double for households with children and three times higher among one parent households.<sup>2</sup> Even after the increase in the minimum wage in January 2018, the increased rate remains about 20% below that of the living wage, the amount required for a minimum socially acceptable standard of living in Ireland. The issues of low pay, inadequate income, precarious work and high cost of living are key contributing factors to poverty and deprivation among the household's SVP assist, the majority of which are households with children. SVP regularly meet working families who are experiencing significant stress and strain as they try to cover bills, housing and everyday costs. It is from this perspective that SVP makes this submission to the Low Pay Commission (LPC).

## The interaction between wages, tax and social protection

Any changes in NMW need to be considered in the context of their interaction with changes to the tax and benefit system. The Vincentian Partnership for Social Justice (VPSJ) Budget 2018 analysis shows that the adjustments to personal taxation resulted in a limited change in net income for a full-time minimum wage worker (€0.63 per week), for individuals with incomes of €70,000+ the change is larger (€6.31 per week).<sup>3</sup> The VPSJ have also examined in-work social welfare supports and the degree to which the structure of these supports affects the adequacy of the NMW for households with children.<sup>4</sup> This analysis focused on the marginal effective tax rates (METRS) which referred to the proportion of gross income that is deducted through income tax and the rate of withdrawal from social welfare supports such as Family Income Supplement or the One Parent Family Payment. The results showed a greater METR on the lowest salaries, namely those with salaries between minimum wage and Living Wage, than those on higher wages. The steep withdrawal rates of social welfare support from Family Income Supplement (FIS) and One-Parent Family Payment (OFP) was highlighted as particularly problematic. They concluded that when in-work supports are very focused on those in the lowest wages, it leads to a scenario where an increase in salary results in very little increase in household income.

SVP therefore recommend that the LPC consider how government policy, with regard to social welfare and income tax, works to eliminate low pay and in-work poverty. The structure and fairness of the taxation system and how it affects low income and minimum wage employees should be

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<sup>1</sup> CSO (2017) Survey of Income and Living Conditions 2016

<http://www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2016/>

<sup>2</sup> Source: Eurostat (ilc\_iw02).

<sup>3</sup> VPSJ (2017) Budget 2018: MESL Impact Briefing <https://www.budgeting.ie/publications/budget-2018/>

<sup>4</sup> Thornton (2016) When living wage is not enough

[http://www.budgeting.ie/download/pdf/vpsj\\_2016\\_when\\_the\\_living\\_wage\\_is\\_not\\_enough\\_mesl\\_working\\_per.pdf](http://www.budgeting.ie/download/pdf/vpsj_2016_when_the_living_wage_is_not_enough_mesl_working_per.pdf)

included in the remit of the LPC. The mechanism to address the issue of poverty traps which arise from the withdrawal of primary and secondary benefits and how this effect the adequacy of the NMW should be strengthened through the transfer of the LPC to the new Department of Employment and Social Affairs.

### **Precarious work**

Access to employment is a key way to address poverty but low pay needs to be considered alongside the issue of variable and insecure working hours. The OECD (2015) states that in-work poverty is often the result of low hours, rather than low pay.<sup>5</sup> SVP are concerned about the growing prevalence of low hour contracts and the impact insecure work has on family poverty. The Employment Bill 2017 represents positive progress in this regard. Nevertheless, the LPC should continue to consider how the inadequacy of NMW can be addressed for those on short or irregular working weeks/contracts of employment.

### **Setting the Living Wage as a target**

The adequacy of NMW cannot be examined without considering the current cost of living and public investment in services. The latest data from the Household Budget Survey from the CSO showed that despite a 7.1% increase in household income, household expenditure on services such as health, childcare and education increased by 10.8% between 2010 and 2015. The HBS also showed that expenditure on housing has increased by 11.3%.<sup>6</sup> This clearly demonstrates how the work of the LPC is linked to public investment in services that reduces the cost of living for households, particularly those dependent on the National Minimum Wage.

Childcare is continually raised as a key pressure point for low income households and the delay in the roll out of the Affordable Childcare Scheme is of concern. We acknowledge this implementation issue is outside the remit of the LPC, however, it is necessary to consider how such services interact with wages and contribute to the adequacy of a household's income. The VPSJ recently conducted an analysis of the impact of the ACS on the adequacy of household's income. This analysis was very illustrative of the complex way wages interact with secondary benefits and the impact of services on income adequacy. For example, for a dual earner household the ACS would not reduce expenditure need to a degree where the NMW would provide an adequate income, but does for other family types depending on the family composition, working hours, housing support and entitlement to in-work benefits.<sup>7</sup> Given such complexity, we recommend the LPC engage with the DCYA to examine how the level of subsidy interacts with the NMW and the degree to which it provides an adequate income for different family types.

We welcome the LPC commitment to tackle exclusion, marginalisation and poverty by examining the adequacy of the NMW and note the statement that 'decisions in relation to changes to the National Minimum Wage must be made on a clear evidence base'. SVP are recommending the Minimum Essential Standard of Living is used as a benchmark and that a Living wage should be set as a target

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<sup>5</sup> OECD (2015) Minimum wages after the crisis: making them pay <http://www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf>

<sup>6</sup> CSO (2018) Household Budget Survey 2015-2016 <http://www.cso.ie/en/releasesandpublications/ep/p-hbs/hbs20152016/isr/>

<sup>7</sup> VPSJ (2017) MESL 2017 update report. [https://www.budgeting.ie/download/pdf/mesl\\_2017\\_update\\_report.pdf](https://www.budgeting.ie/download/pdf/mesl_2017_update_report.pdf)

for the Low Pay Commission. This will ensure that the work of the LPC is directed at ensuring an adequate income from work which enables individuals to afford a socially acceptable standard of living, and free from poverty and social exclusion.