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Introduction

SVP welcomes the opportunity to respond to the Low Pay Commission's consultation on the 2025 rate of the National Minimum Wage (NMW).

SVP is the largest charity of social concern in Ireland with over 10,000 volunteers providing support to people experiencing poverty and financial difficulties across the Island of Ireland. In 2023, we received just over a quarter of a million calls for assistance, many of whom are in low paid employment or minimum wage jobs. 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. SVP is also a member of the Living Wage Technical Group.

We recognise that the LPC's remit now includes the commitment to proceed to a NMW that represents 60% of median earnings by 2026. While we welcome the impact of this commitment which will lead to higher earnings for low-paid workers, our priority remains the NMW increases to meet a rate that affords a Minimum Essential Standard of Living (MESL).

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).

Context and Discussion

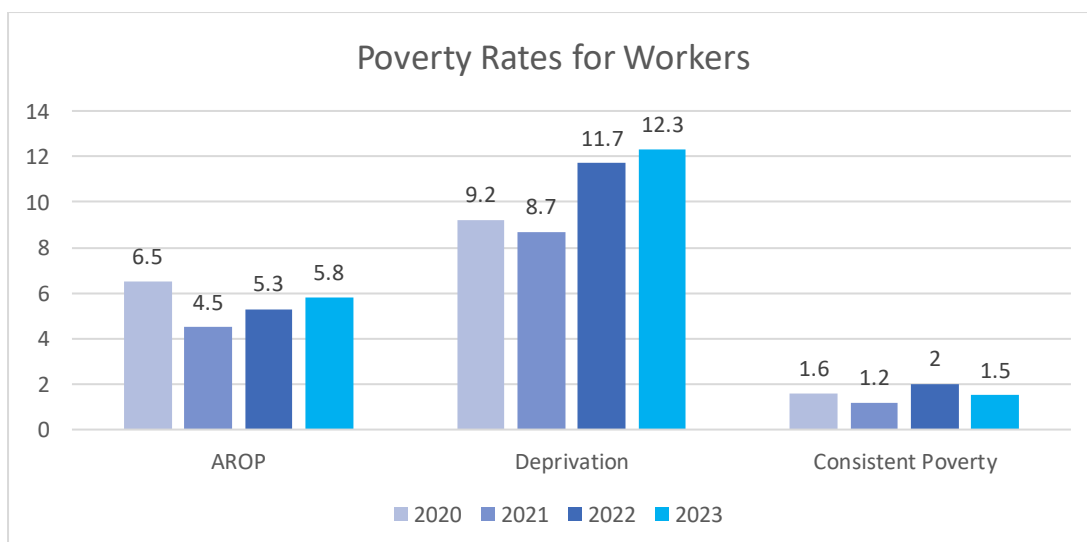
Requests for assistance to SVP rose by 10% in 2023, with over a quarter of a million calls to our regional offices. SVP members support many households who are in work and still struggling – or finding it impossible – to afford the essentials. As inflation slows but continues to rise, we can expect the cost of a Minimum Essential Standard of Living to continue to increase, and people find it increasingly hard to make ends meet.

The increase in the National Minimum Wage in Budget 2024 by 12.6% is notable and welcome and is appropriate given the exceptional increase in prices in the past two years. It also make significant progress on the Government's goal for the NMW to reach 60% of median income by 2026. However, the use of a fixed threshold approach based on median wages, particularly when set at 60%, does not ensure employees can afford minimum living costs.

SVP advocates for an income floor that guarantees households the ability to afford a Minimum Essential Standard of Living, as calculated by the Vincentian MESL Research Centre based on a consensus of what is needed to live a life with dignity in Ireland today. This research is used by the Living Wage Technical Group to calculate an annual Living Wage, rooted in the cost of living.

In-work poverty and deprivation

The latest data from the survey of income and living conditions shows that while consistent poverty has fallen, the at risk of poverty rate (AROP) and the deprivation rate increased for those who are at work. The cost of living supports have helped to temporarily hold rates in 2023 at a similar level to 2022 but are still moving in the wrong direction with the rate of enforced deprivation among workers increase by almost 4 percentage points since 2021.



Source: CSO SILC, 2023 <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2023/>

Adequacy of the National Minimum Wage

This increase to €12.70 was 12.4% increase in the NMW rate. As well as making significant progress towards the 60% of median earnings threshold, it makes progress towards adequacy based on an MESL approach, and rebuilds previous reductions in the value of the NMW due to inflation.

The latest Living Wage (MESL-LW) rate is €14.90 per hour. The current rate of the NMW falls short of the MESL-LW by €2.20 or 17% but the gap is narrowing as it down from a 23% gap in 2022/2023. Nevertheless, this means that even full-time workers paid at the NMW must go without the essentials needed to get by, as reflected in the deprivation indicators discussed above. Based on the 2023 estimate, a single adult would need to work over 58 hours of NMW employment per week to afford a MESL in Dublin in 2024.

The policy commitment made to introduce a Living Wage must be followed up with the necessary ambition from the LPC. We must see wage rises for workers, otherwise there will be real-terms pay cuts for the lowest paid workers as the statutory minimum loses ground on the cost of living. We urge the LPC to build on the step-change of last year's 12.4% increase and continue to pursue consecutive ambitious increases.

Impact of freezes to earning disregards and secondary benefits

One important factor that should be considered by the LPC is the interaction between the earning disregards, thresholds for secondary supports and the NMW. The increase in thresholds for the Working Family Payment in recent years is welcome. However, the earning disregard for the One-Parent Family Payment has remained at €165 since 2020 and the income thresholds for the National Childcare Scheme have also remained static since established in 2020. The Back to School Clothing and Footwear Allowance threshold weren't adjusted this year so some

families will lose access to this important support when their wages go up. Below are some examples of how this impacts minimum wage worker families.

Example 1: couple with two children working 60 hours (NMW) qualified for BSCFA in 2023 but won't in 2024 due to NMW increase.

Example 2: a parent working full time (one income) will no longer qualify for highest rate under the National Childcare Scheme as the thresholds for the targeted support are frozen at €26,000.

Example 3: a lone parent working part-time under the NMW will only see a 6% increase in their income because the earning disregard for OFP is frozen at €165– (this analysis includes the adjustment for increase in the core social welfare rate and increase for a qualified child).

Indexing earning disregards to the NMW would ensure the value of the earning disregard in terms of hours worked is maintained and increasing thresholds for secondary benefits would ensure ongoing access to supports and help make work pay. This will require cross-government coordination but is a commitment to policy coherence and sound administration.

Recommendations

1) Continue to increase the NMW

While it is the LPC's remit and responsibility to recommend a rate that will not lead to adverse labour impacts, we emphasise the benefits to workers in achieving progress towards income adequacy and rebuilding the value of the NMW after years of inflation. This will progress towards the policy aim of the NMW representing 60% of average earnings and would urge the LPC to make a strong recommendation for 2025 to continue to make progress on this goal.

Beyond the rate of the NMW itself, consideration of tax bands and the value of refundable tax credits for employees should be considered as an approach to protecting low paid workers' net income. Returning unused tax credits to employees would provide a strengthened safety net to low paid and part-time workers feeling the sharpest impact of the rising cost of living.

2) Track Government's Living Wage against MESL Living Wage costs

As outlined at the outset of this submission, SVP favours a Living Wage rate based on the real cost faced by workers and which enables workers across Ireland to afford a socially acceptable standard of living as determined by the research from the Vincentian MESL Research Centre and the Living Wage Technical Group.

We note that in 2023, the Government's living wage set out at 60% of median income would be 13.90 in 2024, is significantly below the MESL-LW rate of €14.80. ¹ SVP understand the decision to use this particular benchmark for the Government's Living Wage but recommend that on an annual basis the rate is monitored and checked against real living costs to ensure the adequacy gap does not continue to grow between the NMW and the MESL-LW.

3) Index thresholds and secondary benefits inline with the NMW increase

We recommend the automatic indexation of earning disregards and key secondary payments and supports to ensure that adjustments in the NMW do not lead to irregularities and arbitrary knock-on effects.

In particular we need to see indexation within supports that enable and incentivise people to work: childcare supports, earnings disregards such as in One Parent Family Payment and Working Family Payment, eligibility for Back to School Clothing and Footwear Allowance, National Childcare Scheme subsidies, housing supports, and medical cards.

We support the LPC's own recommendation to have a unit within the Department of Finance with a remit to ensure these consequences are accounted for. This would require input from the Department of Social Protection and we suggest the LPC should publish an analysis of the impact of NMW changes on the value of earning disregards/ other in-work supports in conjunction with the annual report.

¹ Living Wage Technical Group (2023) Living Wage Update 2023/2024
www.livingwage.ie/download/pdf/living_wage_2023-24.pdf