REPORT ON THE LENGTH OF TIME EMPLOYEES SPEND ON THE NATIONAL MINIMUM WAGE 2022

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REPORT OF THE LOW PAY COMMISSION
ON PROGRESSING TO A LIVING WAGE

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Chapter 1: Background to this Report

The 2020 Programme for Government includes a commitment to “progress to a living wage over the lifetime of the Government.” On January 25, 2021, pursuant to Section 7, 10C, (4) (a) of the Low Pay Commission (National Minimum Wage) Act 2015, the Tánaiste and Minister for Enterprise, Trade and Employment requested that the Low Pay Commission (LPC) examine and make recommendations on how best to achieve this commitment.

In order to inform its recommendations to Government on the best approach for achieving the Programme for Government commitment, the LPC commissioned research to examine the design of a living wage in an Irish context. This research, which was conducted by Dr Aedín Doris, Prof. Donal O’Neill, and Dr Olive Sweetman of Maynooth University, considered the policy, social, and economic implications of moving to a living wage as well as the process by which Ireland could progress towards implementing a living wage. This accompanying research report aided the LPC in making its recommendations on the Programme for Government commitment to “progress to a living wage over the lifetime of the Government.”

The terms of reference for the Maynooth University research were:

1. National and International experience of a Living Wage

Review the national and international experience and research around a ‘living wage’, including the objectives of a ‘living wage’, for example, to ensure a socially acceptable standard of living while protecting employment. Outline the approach, design and implementation process experienced in other countries, similar to Ireland, and assess their economic and social impacts.

2. A Living Wage in Ireland

Examine how a living wage could be calculated in the Irish context and provide the rates implied from the different methods of calculation. The study should examine the following:

a. A living wage as a percentage of the country’s median wage, taking into consideration any possible distorting effect of Multi-National Companies (MNC’s) on the median wage in Ireland versus other countries.

b. A living wage based on the cost of achieving a minimum standard of living.
c. A combination of methods, such as a median wage target with periodic reviews to assess in-work poverty and income adequacy for living wage workers.

d. Consider whether a living wage should be related to the age of a worker.

e. Consider the option of having a different regional or sub national rates, for example the possibility of a Dublin rate.

f. Consider the impact of Covid 19 on the data sets that are being relied upon for the research and the appropriateness of same. For example, will the use of the data lead to an artificial skewing of the outcome.

3. Policy implications of moving to a Living Wage

Examine the policy implications of a move to a living wage in Ireland, including:

a. Review the national and international evidence on the impact of the introduction of a living wage at the levels implied at point 2, on employment, hours worked, consumer prices, and other relevant margins of adjustment.

b. Consider how a living wage at each of the rates implied would be expected to change the overall wage distribution and the wages of different groups of employees.

c. Consider the impact of a living wage at each of the rates implied on in-work poverty.

d. Consider how a living wage at each of the rates implied would be expected to change labour costs and total costs at an economy wide level and across sectors.

e. Consider over what length of time should a living wage be introduced in Ireland and how changes in the living wage (as measured in 2) in the intervening period be dealt with.

f. Examine possible interactions between a living wage and other policy instruments, such as tax rates, social insurance rates, social policy and (if calculated on a cost of living basis) health, education, and housing policy.

g. Examine the potential impact that a living wage would have on other fiscal and social policy instruments. For example, the possibility of lower supplementary welfare payments if a living wage lowered in-work poverty, higher revenues if a living wage increased productivity, consumer demand, purchasing power, etc.
4. Moving towards a Living Wage in Ireland

Informed by national and international evidence, outline a process, method or forum by which Ireland could progress towards achieving a living wage, including the following:

a. Consider over what length of time a living wage should be introduced in Ireland.

b. Consider whether there should be a provision for slowing down / pausing wage increases during recession and speeding them up during expansions, such that the target could be met over the business cycle.

c. Consider if there should be a provision for a periodic evaluation of the impact of a living wage.

d. Consider whether a living wage should be statutory or non-statutory.

The origins of the concept of the living wage are explored in this report, as are the factors to be considered in the calculation of a living wage. The report concludes with the LPC’s recommendations on how to progress to a living wage over the lifetime of the Government.
Chapter 2: Living Wage Research

As outlined in the Maynooth University research, the concept of a living wage has a long history dating back many centuries. However, issues such as rising wage inequality and increases in the incidence of low-paid work have seen a renewed interest in the concept over the last 20-30 years. When discussing the concept of a living wage it is important to understand not only the definition and purpose of a living wage but also how it differs from the more familiar minimum wage. From an Irish perspective, it is important to understand this distinction as Ireland currently has a statutory minimum wage, established in the National Minimum Wage Act 2000, but does not have any legislation concerning a living wage.

The authors of the Maynooth University research discuss the differences between a living wage and a minimum wage stating that a living wage is “an income floor, like the minimum wage, but one that allows employees to afford the essentials of life.” This definition therefore suggests that earnings below a living wage result in employees being forced to do without certain essentials and cannot make ends meet. Eurofound\(^1\) provides further clarification between the concept of a living wage and the concept of a minimum wage by pointing out that a living wage tends to be “significantly higher” than a minimum wage. The reason cited for this tendency is that a living wage is “set at a level to allow a worker to attain a socially acceptable living standard…If existing minimum wages were perceived to be effective in this regard, the rationale for living wage campaigns would disappear.”

Within the concept of a living wage itself, there are various forms which it can take. In the US, living wages tend to take the form of legal ordinances mandating firms in a specific city or area that are in receipt of public funding to pay their workers a specific living wage. To date however, in most countries where a living wage exists it has been implemented as a voluntary scheme in which cooperating employers are recognized and accredited as being a living wage employer. In the UK, there are almost 9,000 employers that have voluntarily agreed to pay their workers the Living Wage. This Living Wage is calculated by the independent Living Wage Foundation and takes into consideration the wage needed to attain a minimum standard of living. It should be noted that in the UK there is also a National Living Wage which is set by the government and is a form of a minimum wage which must, at a minimum, be paid to all workers over the age of 23.

In addition to the statutory or voluntary basis on which it is introduced, living wages can also differ significantly according to the way in which the living wage rate is calculated. Before a

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\(^1\) Concept and practice of a living wage, Eurofound, 2018
living wage is introduced, it is also important to give consideration to a variety of issues in advance such as whether the living wage rate should be adjusted for different age groups, whether there should be regional variations for those living in different geographic areas, whether there should be different living wage rates for different sectors in the economy, and whether there should be any contingencies in place to amend the living wage rate in times of economic expansions or recessions. Each of these issues is further explored in the following sections.
Chapter 3: Issues for Consideration and Recommendations

Calculation Method

Among the main issues for consideration when discussing a living wage is the method by which it should be calculated. As identified in the Maynooth University research, there are two main approaches which can be used for calculating a living wage. The first approach, known as the Minimum Essential Standard of Living Approach (MESL) is a formal needs-based approach, in which a basket of goods needed to achieve an agreed standard of living is chosen and the wage needed to reach this standard is then designated as the living wage. The second approach is a fixed threshold approach which uses a benchmark figure to determine the Living Wage and is usually some proportion of the median wage.

Within each of these approaches there are a number of factors to consider. Although the MESL approach can be the result of a rigorous process, determining what items are necessary to include in a basket of goods approach in order to allow workers to achieve a ‘socially acceptable living standard’ remains largely subjective. A living wage rate calculated using the MESL approach would be based on what individuals within focus groups believe workers need to consume in order to achieve a ‘socially acceptable living standard’ as opposed to real observations of what workers actually consume. Another issue with the MESL approach is the profile of the representative minimum wage worker. For example, the representative worker used in the calculation of a living wage rate by the Living Wage Technical Group (LWTG) works full-time, does not have any dependents, and is living in private rental accommodation. Although this profile may be representative of some minimum wage workers, it is not representative of all minimum wage workers.

There are also limitations to the fixed threshold approach which sets a living wage rate as a percentage of a benchmark figure. During the business cycle, the median wage may change in a way that gives misleading results. For example, where low-paid workers are laid off during a recession this may change the composition of the workforce and drive up the median wage without any wage increases necessarily occurring.

Recommendation – Calculation Method

In evaluating the two main approaches for the calculation of a living wage, the LPC recognises the merits of the MESL approach. However, for a number of reasons the LPC recommends adopting a fixed threshold approach for the calculation of a living wage.
The fixed threshold approach is seen as more appropriate for several reasons. Adopting a fixed threshold set at a certain proportion of the median wage can provide a greater certainty in terms of financial forecasting for both employees and employers.

The fixed threshold approach also ensures low-paid workers that their income will mirror any significant changes in the overall economy.

The LPC further recommends setting the fixed threshold at 60% of the median wage, with the median wage being calculated as the median hourly wage of all employees.

As explained in the Maynooth University research, there is strong international evidence to justify setting the living wage rate at 60% of the median wage, as it strikes a balance between moving low-paid workers to an acceptable standard of living while also showing no significant negative effects on employment.

Examples of disparity between trends in the MESL and the median wage or cost of living can be seen in the below graphs which contrast the MESL wage rate and the median wage rate.

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**Figure 1: MESL as a percentage of the median wage**

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2 Estimates of the median wage are based on EU-SILC data. 2014-2016 are estimates produced by the ESRI. 2017-2019 are from the Maynooth University research. The CSO was unable to provide the Low Pay Commission with data to estimate a median wage for 2020 in time for the publication of this report. The median wage for 2020 and 2021 was estimated on the basis of the 2019 figure, projecting the figure forward using annual growth estimates of the mean wage as reported in the CSO’s “Earnings and Labour Costs” releases.
Figure 1, which contrasts the MESL wage rate as a percentage of the median wage since 2014 shows the living wage rate as estimated by the LWTG has been declining relative to the median wage. If a MESL minimum wage had been adopted in 2015 this would have implied that the minimum wage would have risen at a slower rate than wages in the wider economy since then.

A minimum wage set at 60% of the median wage would imply a significant increase to the current National Minimum Wage. However, the LPC is aware that a minimum wage set at 60% of the median wage may be lower than what is considered a living wage, which remains the objective. Therefore, the LPC also recommends that after the 60% of the median wage target has been reached, subject to an assessment of the impact of the progression to 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, the LPC should assess the economic practicality of gradually increasing the targeted threshold rate towards 66% of the median wage and make recommendations accordingly.

The impact of moving to the 60% threshold should be examined as part of the LPC’s legislatively required three-year reviews, which are due in 2025 and 2028.

As part of its assessment the LPC should examine the net wages of workers in receipt of the living wage and the relationship between the disposable income delivered by the living wage and the average disposable income in society.

Low-wage earners are defined by Eurostat as “those employees earning two thirds or less of the national median gross hourly earnings”. On that basis, having a living wage rate set at 66% of median wage will eradicate low-wage employment for all workers earning at or above the living wage rate.

As can be seen in Figure 2 below, a fixed threshold set at 66% of median wage is close to the amount calculated by the LWTG which uses the MESL approach.

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Age

The age at which the living wage should be applied is another key issue to be decided upon when considering the move to a living wage. At present, Ireland implements an age-based structure for the National Minimum Wage where employees aged 20 years and over are entitled to receive 100% of the National Minimum Wage, employees aged 19 are entitled to 90% of the National Minimum Wage, workers aged 18 are entitled to 80% of the National Minimum Wage, and workers aged 17 and under are entitled to 70% of the National Minimum Wage.

When the statutory National Living Wage was introduced in the UK, it applied to workers aged 25 and over. This has recently changed, and the National Living Wage now covers workers aged 23 and over. By October 2024 its coverage is to be expanded to include workers aged 21 and over.

Recommendation - Age

The LPC believes that the existing National Minimum Wage youth rates should also be applied to a living wage. This would result in all employees aged 20 and over receiving the full living wage rate, those aged 19 receiving 90% of the living wage rate, those aged 18 receiving 80% of the living wage rate, and those aged under 18 receiving 70% of the living wage rate.
However, the LPC further recommends the preparation of a report examining the issues around retaining, removing, or expanding youth rates. Informed by this report, the LPC should make a recommendation to the Minister for Enterprise, Trade and Employment on this subject.

**Sectors and Regions**

The LPC is mindful that the introduction of a living wage in Ireland will affect certain sectors more significantly than others. The Maynooth University research provides a breakdown of how different sectors would be affected by the introduction of a living wage set at 60% of the median wage. For example, the study shows how over 40% of workers in the food and accommodation sector earn less than 60% of the median wage. This suggests that the introduction of a living wage at this rate could have a significant effect on this sector.

Another issue examined in the Maynooth University research is whether the living wage rate should vary by region. Although Ireland is a relatively small country in geographic terms, living costs can vary between major urban economic centres and associated commuter belts in comparison to other rural areas. However, it is acknowledged that those more rural areas are also impacted by greater costs such as transport.

**Recommendation – Sectors and Regions**

The LPC considered the possibility of introducing different living wage rates for different sectors. However, this is not recommended.

The LPC does not recommend any regional variation within a living wage. To do so would give rise to many challenges. For example, determining rates that should apply to those living outside major urban economic centres such as Dublin but who commute to those areas for work purposes would be problematic.

However, given the introduction of a living wage is likely to have larger effects on certain sectors and regions, consideration should be given to how employers with a significant number of low wage employees can be supported during the progression to a living wage.

For example, consideration should be given to the introduction of an economy-wide enterprise support scheme to support eligible businesses in the transition to a living wage. Such a scheme, based on the proportion of low wage workers in a firm’s wage bill, could provide a temporary subsidy to qualifying employers.

It is recommended that the details of such supports should be discussed between the relevant representative groups as facilitated by the Labour Employer Economic Forum (LEEF).
The provision under the National Minimum Wage Act (2000) exempting an employer in financial difficulty from the obligation to pay the minimum wage should be maintained in any new legislation introduced to underpin the progression to a living wage.

**Timeline for Implementation**

As calculated in the Maynooth University research, a living wage based on 60% of the median wage for all workers in 2020 would result in a wage floor of €11.57. This amount would equate to an increase of €1.47 or 14.6% above the 2020 National Minimum Wage (€10.10).

To avoid significant financial shock for employers, rather than being introduced immediately, it may be more appropriate to set a target for the living wage rate several years in advance and chart a path towards this target on an annual basis.

In the UK, a targeted future rate for its National Living Wage was set five years in advance with a linear path that could be charted in advance where annual adjustments were made with the end target figure in mind.

**Recommendation – Timeline for Implementation**

The LPC recommends that the adjustment to a living wage of 60% of median wage is made within a period of no more than five years. This does not rule out a shorter timeline. The ‘Contingency’ section below makes further recommendations as to mechanisms which would allow the LPC to slow down or speed up increases towards the living wage.

See Appendix 1 and Appendix 2 for illustrations of how transitioning to a 60% median wage over a five-year period might occur under assumptions of 2%, 3%, and 4% median hourly wage growth.

It is important to note that these appendices are provided as an illustrative example only. The LPC is not seeking to establish or recommend a monetary amount at this time. Should the LPC’s recommendation that the living wage reach the 60% of median wage threshold be accepted and implemented, the living wage will be reflective of current wage levels and reflective of the performance of the wider economy.

**Monitoring the Living Wage**

Following the introduction of a living wage, it will be necessary for the LPC to continuously monitor and review the living wage rate to ensure its adequacy in providing an acceptable standard of living. While the LPC’s primary task will be to ensure that the minimum wage is
moving towards or is at the target threshold of 60% within five years of the living wage being introduced, and potentially 66% three to five years subsequently, it will need to also continuously monitor the impact of the living wage rate on employment, hours worked, inequality as well as the living wage rate’s impact on firm performance.

Under the legislation establishing the Low Pay Commission, the National Minimum Wage (Low Pay Commission) Act 2015, the LPC is obliged to have regard to a number of issues in considering its recommendations. These are –

(a) changes in earnings during the relevant period
(b) changes in currency exchange rates during the relevant period
(c) changes in income distribution during the relevant period
(d) whether during the relevant period –
   (i) unemployment has been increasing or decreasing
   (ii) employment has been increasing or decreasing, and
   (iii) productivity has been increasing or decreasing
   both generally and in the sectors most affected by the making of an order,
(e) international comparisons, particularly with Great Britain and Northern Ireland,
(f) the need for job creation, and
(g) the likely effect that any proposed order will have on -
   (i) levels of employment and unemployment,
   (ii) the cost of living, and
   (iii) national competitiveness

In moving to a threshold-based living wage, the LPC’s primary responsibility will be ensuring that the minimum wage is moving towards or remains at the targeted threshold. However, the LPC recommends it continues to review the impact of the move to a living wage, having regard to the above issues.

The LPC will also be required to continuously review the living wage to ensure its sufficiency in providing an acceptable standard of living. Analysis of how the living wage interacts with measures such as inflation, CPI, the relationship between the disposable income delivered by the living wage and the average disposable income in society, MESL developed by civil society, etc. should be conducted.
Data Requirements

So that the LPC can monitor the minimum wage and ensure that the minimum wage is moving towards or remains at the targeted threshold, and to ensure that the impact of changes in the minimum wage on employment, inequality, productivity and other impacts on workers and firms can be effectively measured, there are substantial data requirements relative to the current availability of data.

These data requirements and corresponding recommendations are outlined in Chapter 4 of this report. Chapter 4 supports the LPC’s main recommendation in this area that, in consultation with the CSO, any legislative or resourcing barriers which impede the timely collection and provision of up-to-date hourly median wage data and its other data requirements are removed.

The LPC stresses the importance of addressing with the recommendations we make with regard to the provision of data. This is important so that minimum wage workers and their employers can have confidence in the process we recommend for setting the minimum wage and in the evaluation of the impact of the progression towards a living wage.

Secretariat

The LPC acknowledges the quality of the support provided by its secretariat since its foundation. However, it also acknowledges the significant turnover of secretariat staff during these six years due to natural career progression, reassignments and the transfer of functions between Government Departments. Given the complexity of its work, the LPC recommends that consideration is given to the assignment of staff with experience in economic evaluation and analysis to the secretariat on a longer-term basis than currently applies.

Living Wage and Tax and Benefits System

In successive annual reports the LPC has called for the removal of anomalies created by the sudden increase in the rate of PRSI on earnings above the minimum wage. While the introduction of the PRSI credit and the annual increase in the PRSI threshold mitigates the effects of these anomalies, the LPC has long called for a comprehensive solution. In this regard, the LPC welcomed the announcement by the Tánaiste and Minister for Enterprise, Trade and Employment that an options paper to resolve these anomalies is being developed.
Similarly, the LPC has each year requested that means tests, earnings thresholds and income disregards for social welfare supports and secondary benefits are adjusted to reflect any change in the rate of the National Minimum Wage.

In considering the progression to a living wage the LPC is mindful of the need to ensure that workers progressing to a living wage, and their employers, are not automatically subjected to increased social insurance or taxation costs. Similarly, the impact on workers of a move to a living wage on social welfare supports needs to be considered.

The progression to a living wage potentially involves substantial increases in wages for a relatively large number of employees. As such, the impact on the tax base of an automatic increase in income thresholds in line with of each increase in the progression to a living wage should be considered, as should the impact of an automatic increase in income disregards on the social welfare system.

The LPC recommends that the structure of the tax and welfare systems are examined to establish the potential impact of the progression to a living wage.

The LPC recommends the annual publication of an analysis which takes into consideration the impact of any proposed increases in the living wage rate on the take home pay of different categories of workers. For example, consideration should be given to including lower paid workers in equality budgeting exercises which would provide greater information on the likely impacts of budgetary measures on these workers and help avoid unintended adverse outcomes. It would allow adjustments to be made to the tax code to ensure that low wage workers receive a reasonable increase in take home pay from any increase in the minimum wage rate.

Contingency

As changes in the economy inevitably occur, it is worth considering whether provisions and adjustment mechanisms should be available for the LPC to adopt in times of economic expansions and recessions. These mechanisms would allow the LPC to slow down or speed up increases to the living wage rate, either during its initial implementation period or beyond.

As noted in the Maynooth University research, it is important that the circumstances necessitating the use of such adjustment mechanisms are, to the greatest extent possible, clearly defined in advance. Such circumstances would include recessions, economic expansions and periods of high unemployment, as well as the emergence of new evidence showing that the existing policy was having an adverse effect on labour market outcomes, such as impacts on employment, access to employment, hours worked, inequality and firm
performance. There is also a need to be cognisant of unforeseen events, such as a public health emergency, environmental shocks, or international unrest, which may have similar impacts to the circumstances mentioned above and that may also necessitate the use of adjustment mechanisms.

**Recommendations – Monitoring the Living Wage**

The LPC recommends, in consultation with the CSO, the removal of legislative or resourcing barriers which impede the timely collection and provision of up-to-date hourly median wage data and its other data requirements. The LPC makes further recommendations on its data requirements in Chapter 4.

The LPC should have the discretion to use adjustment mechanisms in response to any specific circumstances that have a significant impact on the living wage rate. Such circumstances include recessions, economic expansions and periods of high unemployment, as well as the emergence of new evidence showing that the existing policy was having an adverse effect on labour market outcomes. The LPC should also be able to use adjustment mechanisms in response to other unforeseen events which may also have a significant impact on economic conditions.

It is also recommended that any adjustment mechanisms used which result in a deviation from a specified target should be temporary and subsequent actions should be taken to revert to the specified target, e.g. 60% of median wage.

The LPC also recommends that it continuously reviews the living wage to ensure its sufficiency in providing an acceptable standard of living. Analysis of how the living wage interacts with measures such as inflation, CPI, the relationship between the disposable income delivered by the living wage and the average disposable income in society, MESL developed by civil society, etc. should be conducted.

The LPC recommends that its annual research budget should be increased to ensure comprehensive analysis of the effects of the progression to a living wage.

The LPC recommends that consideration is given to the assignment of staff with experience in economic evaluation and analysis to its secretariat on a longer-term basis than currently applies.

The LPC recommends that the structure of the tax and welfare systems is examined to establish the potential impact on the tax base and on the social welfare system of the progression to a living wage.
The LPC recommends that the likely impacts of budgetary measures and increases in the minimum wage rate on these workers are examined annually to help avoid unintended adverse outcomes and allow adjustments to be made to the tax code to ensure that low wage workers receive a reasonable increase in take home pay from any increase in the minimum wage rate.
Chapter 4: Data Requirements

As previously noted, and so that the LPC can monitor the minimum wage and ensure that it is moving towards or remains at the targeted threshold, and to ensure that the impact of changes in the minimum wage on employment, inequality, productivity and other impacts on workers and firms can be effectively measured, there are substantial data requirements relative to the current availability of data.

Three main requirements are listed below:

1. It is imperative that the LPC has access to up-to-date hourly median wage data. We note that if the recommendations of this report in relation to setting the minimum wage based on a fixed percentage of the median were currently in force, proposed increases in the minimum wage for 2023, would have to be made in 2022 based on the expected median wage for 2023. Yet currently, in March 2022, the most recent estimates for the hourly median wage available to the LPC are from 2019. A situation where the legally binding minimum wage would be set based on estimates of the median wage that are two or three years old would be highly unsatisfactory.

The LPC welcomes the Central Statistics Office's willingness to work collaboratively to ensure a continuous data source to allow the calculation of a median wage on a quarterly basis. It is imperative that the Central Statistics Office (CSO) is adequately resourced to ensure the ongoing provision of this data, given the importance of a reliable and timely measure of the hourly median wage to the process we recommend for moving towards a living wage.

2. Introducing a living wage involves imposing a requirement on firms to implement changes in the relative wage of low-paid workers. To evaluate the impact of the progression to a living wage (on firm performance in terms of the impact on output, productivity or profitability) firm level data on these outcomes is needed. Furthermore, to identify the extent to which firms are impacted by a change in the minimum wage this firm level data would also need to contain data on the wages, hours worked and other variables for a sample of workers from each firm.

There are currently two firm level data sources which also have data on wages that could potentially identify the exposure of the firm to changes in the minimum wage.
The Structure of Earnings data collects data at the firm level and has data on a sample of workers at each firm. The second firm level dataset that identifies how exposed firms are to the minimum wage is the EHECS data which primarily collects data on average wages and hours worked at each firm.

There are a number of important limitations to the availability of data of this type and the LPC recommends that these are addressed. The LPC notes that data on firm output and profitability can be made available through data linkages with, for example, the Structural Business Surveys. If this mechanism could be used to link data on output and profitability with the Structure of Earnings Survey, and the way information on a sample of workers at each firm was improved, an annual Structure of Earnings Survey would greatly improve the capacity to monitor the impact of the minimum wage on firms and workers.

3. The report from Maynooth University also stresses the importance of the availability of panel data so that the impact of introducing changes in the structure of the minimum wage can be effectively evaluated.

The LPC understands that if hours worked was included as a variable in the administrative PAYE Modernisation / PMOD data file this would provide a continuous source of panel data of all employees. It would allow for real-time granular analysis of hourly earnings by numerous variables such as sex, sector, age, geography etc.

The LPC appreciates that the CSO’s resources are understandably targeted towards fulfilling their legislative obligations. However, it is concerned that the current allocation of resources has resulted in a situation where the CSO cannot ensure the timely provision of the data outlined above which is needed to estimate the median hourly wage, or ensure that the data requirements in terms of worker-firm matched data or improving and extending the provision of panel data can be met with any degree of certainty.

The LPC does not have the competency to address the detail of how these constraints on the provision of data can be removed in this report. These issues should be addressed in consultation with the CSO.

The LPC stresses the importance of addressing with the recommendations we make with regard to the provision of data. This is important to ensure that minimum wage workers and
their employers can have confidence in the process we recommend for setting the minimum wage and in evaluating the impact of the process of moving towards a living wage.

Recommendations – Data Requirements

The LPC recommends, in consultation with the CSO, the removal of any legislative, resourcing, administrative or other barriers which impede the timely collection and provision of up-to-date hourly median wage data and other data requirements as outlined above.

Given the importance of reliable and timely hourly median wage data, the LPC recommends that the provision of this data becomes an integral part of the national statistical system, if necessary via legislative amendment.

The LPC recommends that the CSO is adequately resourced in the area of labour market and earnings statistics to allow it to meet the data requirements set out above and to support the progression to a living wage in a manner in which all relevant stakeholders can have full confidence.

The LPC recommends that the CSO moves to provide matched, firm-level data on firm output and profitability.

The LPC recommends that the possibility of including hours worked in the administrative PMOD data file is explored.
Chapter 5: Summary of Recommendations

In order to achieve the aim as set out in the Programme for Government to “progress to a living wage over the lifetime of the Government”, the Low Pay Commission recommends:

1. Progressing to a living wage through a gradual adjustment to the minimum wage.

2. Adopting a fixed threshold approach for the calculation of a living wage.

3. Setting the fixed threshold at 60% of the median wage.

4. That the adjustment to a living wage of 60% of median wage is made within a period of no more than five years. This does not rule out a shorter timeline.

5. As part of the Commission’s legislatively required three-year reviews, which will be due in 2025 and 2028, the impact of moving to the 60% threshold is examined.

6. After the 60% of the median wage target has been reached, subject to an assessment of the impact of the progression to 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, the Commission should assess the economic practicality of gradually increasing the targeted threshold rate towards 66% of the median wage and make recommendations accordingly.

7. The existing National Minimum Wage youth rates should also be applied to a living wage. However, the Low Pay Commission further recommends it reviews the issues around retaining, removing, or expanding youth rates and make recommendations to the Minister for Enterprise, Trade and Employment on this issue.

8. No sectoral variation in the living wage.

9. The living wage is applied equally to the entire country and that there is no regional variation in rates.

10. Consideration is given to how employers with a substantial proportion of minimum wage employees can be supported during the progression to a living wage. It is recommended that the details of such supports should be discussed between the relevant representative groups as facilitated by the Labour Employer Economic Forum (LEEF).
11. The provision under the National Minimum Wage Act (2000) for an employer in financial difficulty to be exempt from the obligation to pay the minimum wage should be maintained.

12. The Commission continues its current role of monitoring and making recommendations on the minimum wage rate. The Low Pay Commission should 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 in no longer than 5 years. The Low Pay Commission also recommends that any adjustment mechanisms used which result in a deviation from a specified target should be temporary and subsequent actions should be taken to revert to the specified target, e.g. 60% of median wage. The Low Pay Commission will continue to review the impacts of changes in the minimum wage.

13. The Commission continuously reviews the living wage to ensure its sufficiency in providing an acceptable standard of living. Analysis of how the living wage interacts with measures such as inflation, CPI, the relationship between the disposable income delivered by the living wage and the average disposable income in society, MESL developed by civil society, etc. should be conducted. In this regard, the contributions made by civil society on the living wage should be actively supported and encouraged.

14. A process of consultation with the CSO and other relevant stakeholders is launched to identify and report on what legislative, resourcing, administrative or other barriers impede the timely collection and provision of reliable data on median hourly earnings and other data requirements as outlined in the “Data Requirements” chapter of this report.

15. Implementation of its further recommendations on data requirements as outlined in Chapter 4 of this report.

16. The Commission’s annual research budget should be increased to ensure comprehensive analysis of the effects of the progression to a living wage.
17. Consideration is given to the assignment of staff with experience in economic evaluation and analysis to its secretariat on a longer-term basis than currently applies.

18. The annual publication of an analysis which takes into consideration the impact of any proposed increases in the living wage rate on the take home pay of different categories of workers to avoid unintended adverse outcomes and allow adjustments to be made to the tax code to ensure that low wage workers receive a reasonable increase in take home pay from any increase in the minimum wage rate. Separately, the impact of changes in the living wage on the tax base and on the social welfare system should also be reviewed.
Appendices

Appendix 1. Four-year transition

As in Figures 1 and 2 above, estimates of the median wage are based on EU-SILC data. The 2019 figure is from the Maynooth University research. The CSO was unable to provide the Low Pay Commission with data to estimate a median wage for 2020 in time for the publication of this report. The median wage for 2020 and 2021 was therefore estimated on the basis of the 2019 figure, projecting the figure forward using annual growth estimates of the mean wage as reported in the CSO’s “Earnings and Labour Costs” releases.

Estimates for 2022-2026 were made under the assumption of 2%, 3% and 4% growth in the median wage. 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 2%, 3% and 4% rates of growth in the median wage. The LPC is not seeking to establish or recommend a monetary amount at this time and these figures are not recommendations on yearly increases. Should the LPC’s recommendation that the living wage reach the 60% of median wage threshold be accepted and implemented, the living wage will be reflective of current wage levels and reflective of the performance of the wider economy.
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Appendix 2. Five-year transition

The following figures were generated in the same manner as in Appendix 1, but with the transition to the 60% threshold taking place over five rather than four years.

As with Appendix 1, 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 2%, 3% and 4% rates of growth in the median wage. The LPC is not seeking to establish or recommend a monetary amount at this time and these figures are not recommendations on yearly increases. Should the LPC’s recommendation that the living wage reach the 60% of median wage threshold be accepted and implemented, the living wage will be reflective of current wage levels and reflective of the performance of the wider economy.

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