

# NERI Research inBrief

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## Health Insurance and the Living Wage

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### SUMMARY

The Republic of Ireland's Living Wage was established in 2014 by the Living Wage Technical Group.

The inclusion of expenditure on health insurance in the Living Wage calculation derives from research indicating that such expenditure is 'a need' for a full-time single working adult.

A significant improvement in the provision of, and access to, non-GP health care might alter the perception among individuals that health insurance is a need.

While such a significant change in health policy and provision seems far off, this Research *inBrief* simulates its effect.

### KEY POINTS

- The 2016 Living Wage was calculated by the Living Wage Technical Group as €11.50 per hour.
- The calculation is based on data on living costs covering 15 areas of expenditure combined with the current income taxation and social welfare/public services provision.
- Policy-led alterations to the provision of certain public services possess the potential to alter these costs and conditions and thereby affect the Living Wage.
- A significant improvement in the provision of, and access to, non-GP health care might alter the perception among individuals that health insurance is a need.
- Without the cost of health insurance the 2016 Living Wage would fall by 55c (4.8%) to €10.95 per hour.

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## The Living Wage

Over the past decade the concept of a living wage has gained added attention across the developed world. In principle, a living wage is intended to establish an hourly wage rate that should provide employees working full-time with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure that allows employees afford the essentials of life.

Earnings below the living wage suggest employees are forced to do without certain essentials so they can make ends-meet. Above the threshold employees gain discretionary income to afford living standards and items beyond those deemed essential.

## Republic of Ireland Application

The Republic of Ireland's Living Wage was established in 2014 by the Living Wage Technical Group. The Group's most recent update of the figure, for 2016, reports a rate of €11.50 per hour.

At the core of any estimate of a living wage is a question on income adequacy: how much does a minimum essential standard of living (MESL) cost and how much income is required to afford this?

The Living Wage for Ireland is calculated using MESL data from the Vincentian Partnership for Social Justice. This research establishes a consensus on what members of the public believe is a minimum standard that no individual or household should live

**Table 1: 2016 Living Wage Calculations with & without expenditure on health insurance**

2016 Living Wage – summary of calculations by the Living Wage Technical Group				
	DUBLIN	CITIES	TOWNS	RURAL
Total Expenditure	449.23	365.26	393.33	361.74
Weekly Gross Salary	528.45	403.65	450.45	399.75
Weekly Net Salary	450.27	365.68	395.28	363.57
Weighting	0.2922	0.0905	0.1986	0.4188
	<b>ACTUAL</b>	<b>ROUNDED</b>		
Living Wage – gross per year	23,346.82			
Living Wage – gross per week	447.77			
Living Wage – gross per hour	11.48	<b>11.50</b>		
2016 Living Wage – without health insurance				
	DUBLIN	CITIES	TOWNS	RURAL
Total Expenditure	437.48	353.51	381.58	349.99
Weekly Gross Salary	511.53	383.01	432.24	376.47
Weekly Net Salary	437.48	353.51	381.58	349.99
Weighting	0.2922	0.0905	0.1986	0.4188
	<b>ACTUAL</b>	<b>ROUNDED</b>		
Living Wage – gross per year	22,294.70			
Living Wage – gross per week	427.59			
Living Wage – gross per hour	10.96	<b>10.95</b>		

**Source:** Living Wage Technical Group – *Living Wage 2016* and authors calculations

**Notes:** The Living Wage Technical Group has published a technical document entitled '*Calculating a Living Wage for the Republic of Ireland*' where the methodology for calculating and updating the Republic of Ireland Living Wage is detailed. This is available at [www.livingwage.ie](http://www.livingwage.ie)  
Weights reflect the proportion of the working age population in each area.  
Hourly Living Wage figure is rounded to the nearest €0.05

below. Working with focus groups, the minimum goods and services that everyone needs are identified. With a focus on needs not wants, the concern is with more than survival as a MESL is a standard of living which meets physical, psychological and social needs, at a minimum but acceptable level. Where necessary the core MESL data is complemented by other expenditure costs for housing, insurance and transport.

The results from this analysis combine with the current income taxation and social welfare/public services provision to allow the determination of the annual Living Wage.

A detailed account of the methodology used to calculate the Living Wage has been published by the Living Wage Technical Group and is available on its website ([www.livingwage.ie](http://www.livingwage.ie)).

### **Expenditure Components of the Living Wage Calculation**

The MESL data includes expenditure under fifteen separate headings (covering almost 2,000 goods and services). These include expenditure on: food, clothing, personal care, health, household goods, household services, communications, social inclusion & participation, education, transport, housing, household energy, personal costs, insurance, and savings & contingencies.

Expenditure on insurance products covers three areas: home/contents insurance, car insurance (for non-city employees who require a car) and health insurance.

### **Looking at Health Insurance**

The inclusion of expenditure on health insurance in the MESL and Living Wage calculations derives from an indication by participants in the focus groups that such expenditure is 'a need' for a single working adult in the Republic of Ireland.

The existence of such a need it likely to be linked to the quality of access to current publically provided hospital services and legislative requirements for employees aged over 35 years to pay an additional 'loading'

(2% per year not insured above 34 years of age) on any premium they take out.

Given the assumed income of employees on a MESL, they are entitled to a GP only medical card and are not assumed to be taking out health insurance to cover such expenditure. Consequently, the cost of their health insurance cover is at the lower end of the health insurance market costing approximately €612 per annum (2016 calculations).

### **The Impact of Health Insurance Costs on the Living Wage**

A significant improvement in the provision of, and access to, non-GP health care in the Republic of Ireland might alter the perception among individuals that health insurance is a need. In such a case this expenditure would no longer feature in the MESL calculations and thereby reduce its total cost. As a consequence the hourly gross wage required to afford this living standard, the Living Wage, would fall.

While such a significant change in health policy and provision seems far off, it is possible to simulate its effect.

Table 1 (page 2) reports the results of such an exercise. The top half of the table summarises the 2016 Living Wage calculation while the bottom half repeats that exercise with expenditure on health insurance removed. The 2016 expenditure on health insurance was established at €11.75 per week for individuals in all four areas (Dublin, other cities, large towns and rural areas) examined.

Removing expenditure on health insurance from the MESL reduces each regions weekly expenditure bill, and consequently the gross salary required to afford it. After income taxes and social insurance, the new weekly net salary is established – where this is equal to the cost of the MESL.

Combining the weekly income across each region, in a way that reflects the proportion of the working age population in each area, gives a weighted gross income figure for an

Chart 1: Composition of 2016 Living Wage of €11.50



Irish Living Wage worker. From this the gross Living Wage per annum, per week and per hour can be calculated.

Without the cost of health insurance the 2016 Living Wage would fall by 55c (4.8%) to €10.95 per hour.

### Conclusion

The Living Wage is a useful benchmark, reminding Government, employers, employees and trade unions of the costs that full-time employees face in making ends meet. It also serves as a tool for tracking this over time, given changes to living costs, labour market structures and the tax/benefit system.

In the Irish experience, since a Living Wage was first established by the Living Wage Technical Group in 2014, changes in the income tax structure and the cost of fuel, housing, food, clothing and insurance among others have altered the weekly and hourly income a worker on the Living Wage requires.

Given that the Living Wage is linked to these living costs and conditions, policy-led alterations to the provision of certain public services possess the potential to alter these costs and conditions and thereby affect the Living Wage.

In the case of the public health system, this *inBrief* finds that health insurance

represents 55c (4.8%) of the 2016 hourly Living Wage.

### References

Collins, M.L., B. Mac Mahon, G. Weld and R. Thornton (2012), *A Minimum Income Standard for Ireland – a consensual budget standards study examining household types across the lifecycle – Studies in Public Policy No. 27*, Dublin, Policy Institute, Trinity College Dublin.

Living Wage Technical Group (2016), *Living Wage 2016*. [www.livingwage.ie](http://www.livingwage.ie)

Living Wage Technical Group (2016), *Living Wage Technical Document – June 2016*. [www.livingwage.ie](http://www.livingwage.ie)

VPSJ (2016), *MESL 2016 Update Report*. Dublin, VPSJ.

*A number of previous NERI research papers complement this analysis. These are available on the institute's website and include:*

Collins, M.L. (2014). 'A Living Wage for Ireland: Some Considerations and Initial Estimates' *NERI Working Paper*, 2014/12. Dublin, NERI.

Collins, M.L. (2014). 'The Impacts and Challenges of a Living Wage for Ireland' *NERI Working Paper*, 2014/13. Dublin, NERI.

*A forthcoming NERI Research inBrief will examine the Living Wage and Housing Costs*

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