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Low Pay: Some Insights

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SUMMARY

This Research *inBrief* summarises some recent NERI research on low pay. The aim of this work has been to establish a more robust evidence base for our understanding of the nature and shape of low pay.

Issues related to low pay have gained added attention over the past year with the establishment by Government of a Low Pay Commission to examine issues including minimum hourly rates and the conditions of workers.

This focus complements a broader consideration of pay levels in both the public and private sector and the emergence of a method for estimating an annual living wage for workers in the Republic of Ireland.

KEY POINTS

- 25% of employees (almost 345,000) earn less than €11.45 per hour.
- 30% of employees (just over 400,000) earn less than €12.20 per hour.
- Low pay is more common among:
 - female workers;
 - younger workers;
 - those in the retail, hotel and security sectors;
 - single parents; and
 - those on temporary contracts.
- At the household level, a higher proportion of low paid employees are living in households that struggle financially, borrow for day to day living costs and experience deprivation.

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Research for new economic policies

Introduction and Context

In early 2015 the Republic of Ireland's Government appointed a Low Pay Commission to examine issues around low pay including minimum hourly rates and the conditions of workers, in particular for those experiencing precarious employment patterns. This focus complements a broader consideration of pay levels in both the public and private sector and the emergence of a method for estimating an annual living wage for workers in the Republic.

This Research *inBrief* summarises some recent NERI research on low pay and draws on a number of recent publications (these are listed on page 4). The aim of this work has been to provide greater clarity on the overall shape of earnings across the state and in particular to establish a more robust evidence base for our understanding of the nature and shape of low pay.

Data

This analysis derives from an examination of the microdata from the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC). This survey is part of an annual Europe wide household living standards survey and collects income

and living standards information from a representative national sample.

The data used here is for 2013 and was released in late January 2015. It comprises responses from 12,663 individuals in 4,922 households.

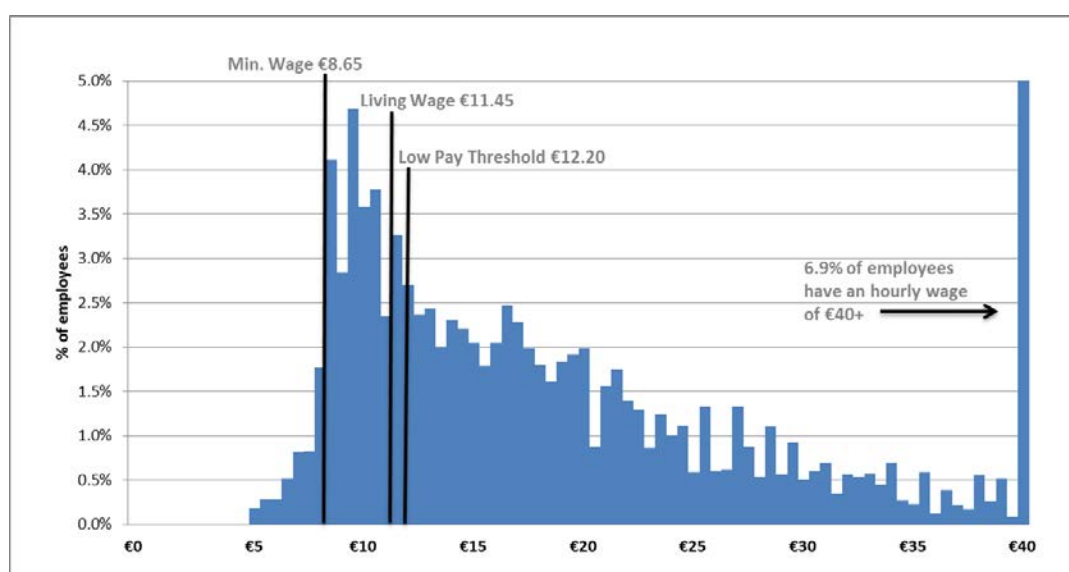
Using this dataset the research examines employee income by focusing on all those indicating that their principal economic status is 'at work' and who are employees. The data includes values for the gross monthly earnings of employees in their main job and the number of hours employees usually work in their main job. Taken together these allow an estimation of the average hourly wage rate for an employee in their main job. Overall the hourly earnings data reflects a sample of 3,369 employees.

Low Pay: How Many?

Chart 1 presents a profile of the hourly earnings distribution in the Republic of Ireland. The chart also includes markers for three earnings thresholds: the 2013 minimum wage, the 2014 Living Wage and the 2010 Eurostat Low Pay Threshold.

Of all the employees examined, 5.5% have

Chart 1: Distribution of Hourly Earnings and Selected Pay Thresholds, Ireland 2013



an income below the statutory minimum wage – these include those exempted by the structure of the minimum wage including young workers under 18 years old, persons employed by a close relative, apprentices and those on structured training schemes. Using the hourly Living Wage as a threshold, the analysis finds that 25.6% of employees have an hourly wage rate of less than €11.45. Some 30.3% of employees lie below the low pay threshold of €12.20.

These findings imply that:

- almost 345,000 employees earn less than €11.45 per hour;
- just over 400,000 earn below €12.20 per hour.

Low Pay: Some Insights

The accompanying NERI working paper provides a full account of the incidence and risk of low pay among all employees. As a summary:

- Women are more likely than men to be low paid with 1 in 3 at risk of low pay.
- 60% of employees aged between 18 and 29 years are low paid. However, low pay exists across all age groups.
- More than 50% of workers in the wholesale and retail sector and almost 70% of workers in the accommodation and food sectors are low paid.
- Of all occupations, those workers in sales and in personal and protective services carry the highest risk of low pay.
- Among household types, the highest risk of low paid is for single parents where 1 in every 2 such employees are in low pay.
- There is a strong relationship between employees on a temporary contract and low pay.



Low Pay and Living Standards

A particular advantage of using the SILC data to assess the nature and composition of low pay is that it allows an examination of the low paid in their household context – a perspective that is often lacking in assessments based on earnings surveys. As such, it allows a more detailed exploration of the financial and family context that low paid workers live in.

While the experience of low pay does not, in and of itself, imply that a worker will experience a sub-optimal standard of living, indeed the research finds low paid workers in the top quintile of the income distribution (see Chart 2), the association between those on low pay and issues such as poverty, debt and deprivation is of obvious interest.

Table 1 summarises some of these results. Compared to employees in general those who are low paid are more likely to be living in households that are below the poverty line. The low paid are also more likely to be struggling financially with 1 in 3 having difficulty making ends meet; two-thirds unable to afford an unexpected expense (€1,085) were it to arise; and almost 1 in 5 borrowing during the last year to pay for ordinary living expenses.

Among employees overall, 19.4% experience deprivation, defined as being unable to afford two or more of eleven basic items. Among those who are low paid the proportion is more than 10% higher, with almost 1 in every 3 low paid workers experiencing deprivation.

Chart 2: The Distribution of the Low-Paid by Household Income Decile, 2013.

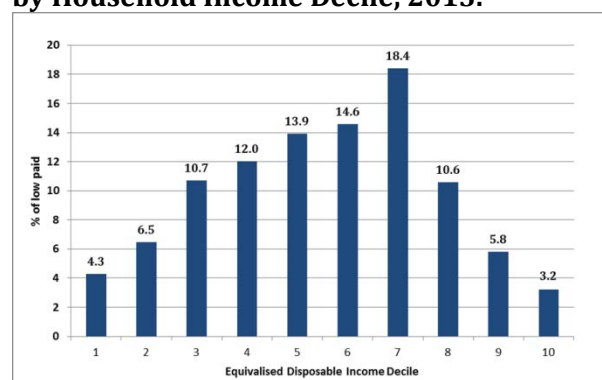


Table 1: Low Pay and Living Standards

	All Employees	*The Low Paid
Living below the poverty line	3.2%	6.9%
Difficulty making ends meet	27.5%	35.8%
Unable to afford unexpected costs	45.9%	66.1%
Borrowed for ordinary living expenses over last year	15.2%	19.4%
Experiencing Deprivation	19.4%	30.4%

Note: * Employees earning less than €12.20 per hour

References

This NERI Research inBrief summarises research findings from an accompanying NERI Working Paper. It provides further details on the data presented here and is available on the institute's website. Its reference is:

Collins, M.L. (2015), 'Earnings and Low Pay in the Republic of Ireland: A Profile and Some Policy Issues' *NERI Working Paper*, 2015/29. Dublin, NERI.

A number of recent NERI publications have also addressed issues related to low pay including:

Collins, M.L. (2015), 'A Profile of Those on the Minimum Wage' *NERI Working Paper*, 2015/27. Dublin, NERI.

NERI (2015), *Quarterly Economic Observer – Spring 2015*. Dublin, NERI. (see Section 4)

Collins, M.L. (2015), 'The Distribution of Market Income in the Republic of Ireland' *NERI Research inBrief August 2015*. Dublin, NERI.

Collins, M.L. (2015), 'Employee and Self-Employed Earnings in the Republic of Ireland' *NERI Research inBrief September 2015*. Dublin, NERI.

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