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Who Gains from a Minimum Wage Increase?

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SUMMARY

As part of Budget 2016 Government is likely to announce an increase to the statutory Minimum Wage. The increase follows the recommendations of the Low Pay Commission.

This Research *inBrief* summarises the results of a recent NERI research paper (July 2015) which profiled those who are on the minimum wage.

Based on that profile, the document also estimates some of the effects of the proposed increase in the minimum wage. Specifically, it examines the average impact on the gross pay of minimum wage employees and the overall increase in the level of earnings for these employees.

KEY POINTS

- 75,000 employees work at the minimum wage.
- Most are women (65%), most are aged in their 20s and 30s and large proportions of these employees work in sectors such as accommodation and food and wholesale and retail.
- A 50 cent per hour increase in the minimum wage will result in:
 - an increase of €13.13 in the gross weekly pay of the average minimum wage worker;
 - an increase of €682 in the gross annual pay of the average minimum wage worker; and
 - across the economy, the annual earnings of minimum wage workers will increase by a total of €51.7 million.
- A further 46,000 employees earn less than the minimum wage and may also experience an increase in hourly pay

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Research for new economic policies

Introduction and Context

As part of Budget 2016 Government is likely to announce an increase to the statutory Minimum Wage.

A minimum wage of €5.58 per hour (IR£4.40) was introduced for experienced adult workers in Ireland under the National Minimum Wage Act 2000. Since then the rate has changed on eight occasions with the forthcoming increase, to €9.15 per hour, being the ninth.

The National Minimum Wage is expressed as an hourly rate of pay and calculated over an employee's 'pay reference period' by dividing their gross reckonable pay by their hours of work. The benchmark rate applies to experienced adult workers and there are exemptions and lower rates for employees aged less than 18 years, persons employed by a close relative, apprentices and those on structured training schemes.

This Research *inBrief* summarises the results of a recent NERI research paper (July 2015) which profiled those who are on the minimum wage. Details of that paper are on page 4. The research is part of an ongoing research project on earnings and low pay where 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.

Low Pay Commission

2014 marked the first year of an economy wide recovery in pay, with average weekly earnings increasing by 1.9% and average hourly earnings increasing by 1.4% between Q4 2013 and Q4 2014.

The emergence of a broader recovery in pay levels shifted the policy focus to a need to revisit the minimum wage and re-establish a process to determine changes to its level. In the *Statement of Government Priorities 2014-2016* a commitment was made to deliver "a new deal on living standards to ensure that the economic recovery is felt by low and middle-income working families".

Part of that commitment included the establishment of a Low Pay Commission.

While the Commission is tasked with examining broader issues relating to the conditions of workers, in particular those experiencing precarious employment patterns, it is also tasked with making an annual recommendation on any revision to the minimum wage. A move to annual assessments, and possible changes to the minimum wage, reflects the experience of other countries where relatively small and frequent changes have been found to be less disruptive than occasional relatively large changes.

The Commission's first report was published in July 2015 and recommends a 50 cent per hour increase in the minimum wage.

Data

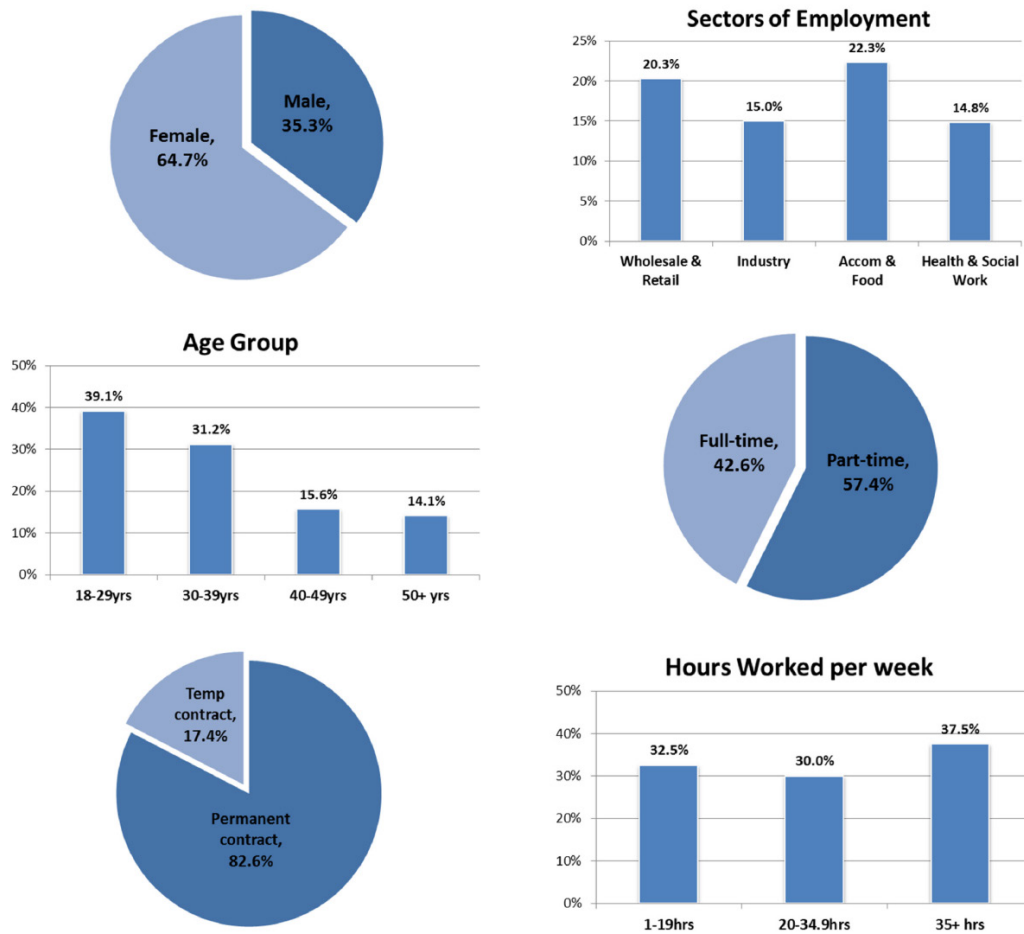
This analysis presented here derives from an examination of the microdata from the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC). This survey is part of an annual Europe wide household living standards survey and collects income and living standards information from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

Workers on the Minimum Wage = 75,000



Minimum Wage Workers

The analysis finds that there are approximately 75,000 employees on the minimum wage. There are a further 46,000 employees earning less than the minimum wage and a total of 9.1% of employees (approximately 120,000) earning the minimum wage or less than the minimum wage.

The Chart above focuses on the profile of the 75,000 employees on the minimum wage.

Women represent almost two-thirds (64.7%) of all those on the minimum wage. When examined by age group, the data show that almost 40% are aged less than 30 years, almost one-third are in their 30s with 15.6% aged in their 40s and the remainder (14.1%) aged more than 50 years.

Relative to the composition of employees in general, those on the minimum wage are most heavily concentrated below the age of 30.

The sectoral profile of employees on the minimum wage shows that more than one-fifth (22.3%) are in the accommodation and food sector with a similar proportion (20.3%) in the wholesale and retail trade. Relative to the size of these sectors, the prevalence of workers on the minimum wage is high. 15% of minimum wage workers are in industry while 14.8% work in the health and social work sector.

When employees on the minimum wage are examined by the occupation they have, 20.4% are found to work in sales and 14% in personal and protective services.

One-third (32.5%) of minimum wage workers work less than 19 hours per week while almost four-in-ten (approximately 28,000 employees) work more than 35 hours per week. Similarly, 42.6% of these workers are full-time workers on the minimum wage – some 32,255 workers. Most minimum wage workers hold a permanent contract of employment (82.6%) although temporary contracts of employment are more common among minimum wage workers than they are among employees in general.

Some Effects of an Increase

Based on the above analysis it is possible to calculate some of the effects of the proposed increase in the minimum wage. Specifically, it is possible to estimate the average impact on the gross pay of minimum wage employees and the overall increase in the level of earnings for these employees.

On average minimum wage workers work 26.26 hours per week. This implies that a 50 cent per hour increase in the minimum wage will result in:

- an increase of €13.13 in the gross weekly pay of the average minimum wage worker;
- an increase of €682 in the gross annual pay of the average minimum wage worker; and
- across the economy, the annual earnings of minimum wage workers will increase by a total of €51.7 million.

These estimates are for gross pay, as the net (take-home) pay of minimum wage workers is determined by a combination of pay rates and the structure of the tax and social insurance system. Indeed, were a 50 cent increase in the minimum wage implemented without any changes to the current (2015) tax and social insurance system, it would see a full time (39 hours per week) minimum wage worker experiencing a marginal fall in their take home pay of 85 cent per annum.

Similarly, it is not possible to estimate the overall increase in employer costs as these

are also linked to the structure of the social insurance system.

The estimates also assume no change in the level of employment following an increase in the minimum wage, a reasonable assumption given the research literature (see McDonnell, 2015) and they do not consider a series of other impacts on employees and their families, on employers and on the state (see a summary in Collins, 2014).

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

Other relevant references include:

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.

McDonnell, T. (2015), 'Employment Impacts and the New Minimum Wage Research' *NERI Research inBrief no 21, April 2015*. Dublin, NERI.

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

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