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## Introduction

The Society of St Vincent De Paul (SVP) is the largest charity of social concern in Ireland with over 11,000 members in 1200 local Conferences. The Society's mission is to provide friendship and support to those experiencing poverty and social exclusion, to promote self-sufficiency and to work for social justice.

We welcome the opportunity to make a submission to the Low Pay Commission on the National Minimum Wage (NMW) rate. We recommend that the LPC pursue a path towards a Living Wage which benchmarks the NMW rates against the actual cost of living in Ireland today, as calculated by the Minimum Essential Standard of Living (MESL) research. The €0.10 increase to the NMW announced in Budget 2021 leaves a considerable gap between the NMW rate and a Living Wage that meets the cost of living. Currently, the Living Wage is calculated at €12.30, €2.10 higher than the NMW rate. We welcomed the commitment in the Programme for Government to move towards a Living Wage, and despite the drastically changed economic context that 2020 has brought, the commitment to fair pay for workers must be kept as a strong foundation for the economic recovery.

We also recommend that the interaction between earnings and social welfare criteria (at individual and household level) is published and examined in order to protect the incomes of those whose pay is increased.

This submission will begin with the impact of the Covid 19 pandemic of those in poverty and low paid work and the importance of offering this cohort better pay in the future. The submission will then outline the challenge presented by low pay and in work poverty, the consequences of which we see in the work of our SVP membership and through research we published this year on the cost of poverty. Finally, we will summarise the benefits to individuals and the economy offered by increasing the NMW.

### The impact of the pandemic

The last year has seen huge changes in our economic landscape brought about by the Covid 19 pandemic. Whilst we have all experienced the widespread restrictions to curb the spread of the disease, the financial impact of the pandemic has not been evenly distributed. Affecting whole sectors such as accommodation and food services<sup>1</sup>, we know that low paid workers<sup>2</sup>, younger workers, part-time workers and renters<sup>3</sup> have suffered disproportionately in terms of job loss and reduced income.

The financial impacts of the pandemic have exacerbated the precarious position of many households whose incomes were already too low and costs too high to build up savings for shocks like we have seen this year. In 2020 we learnt that 149,000 additional people, including 47,000 workers, were going without basics in 2019 compared to 2018, despite an increase in average incomes<sup>4</sup>. This significant increase

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<sup>1</sup> McGuinness, S. and Kelly, E. (2020) 'Managing Mass Unemployment Flows during the Covid-19 Pandemic.' ESRI [https://www.esri.ie/system/files/publications/SUSTAT95\\_0.pdf](https://www.esri.ie/system/files/publications/SUSTAT95_0.pdf)

<sup>2</sup> McQuinn, K. et al (2020) Quarterly Economic Commentary: Autumn 2020' ESRI <https://www.esri.ie/pubs/QEC2020AUT.pdf>

<sup>3</sup> Byrne, S., Coates, D., Keenan, E. and McIndoe-Calder, T. (2020a) 'The Initial Impacts of the COVID-19 Pandemic on Ireland's Labour Market'. *Economic Letters*, Vol 2020, No. 4, Central Bank of Ireland. <https://publicpolicy.ie/digest/the-initial-labour-market-impact-of-covid-19/>

<sup>4</sup> <https://www.svp.ie/news-media/news/more-people-going-without-despite-an-increase-in-a.aspx>

in deprivation shows that even prior to the hardship of Covid 19 there were many households struggling to make ends meet.

This has been a particularly difficult time for the families SVP supports, many of whom were already living with the effects of poverty and marginalisation and who did not have a financial buffer to withstand income shocks or increased households expenses. We have seen essential, everyday costs such as adequate heating and a weekly food shop become a challenge for too many households who are now facing arrears, household debt and ongoing financial uncertainty.

We have seen the impact of school closures on families for whom resources were already stretched to breaking point and have struggled with the costs of IT equipment and resources to learn from home. A sample survey of SVP conferences found that 49% of conferences had received requests for assistance with digital devices, and 75% of conferences had supported households with other essential costs to free up money for children's online learning costs<sup>5</sup>.

Lone parent families, the group we support most often at SVP, have faced particular challenges during the pandemic including balancing employment, social welfare eligibility and limited or non-existent childcare options.<sup>6</sup>

Rather than a year in which we could all stay home and save, for many households this was a year of reduced income and increased expenditure on essentials. Closing the gap between the experiences of economically secure households and those left in low pay and precarious finances is the key challenge of rebuilding the economy after Covid 19. Instead of planning to tackle this retrospectively once the economy is on a better footing, a fair deal for low paid workers must be built into the response from the start, and a commitment to a Living Wage is fundamental to this.

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<sup>5</sup> <https://www.svp.ie/news-media/news/svp-calls-for-extra-help-for-pupils-from-disadvant.aspx>

<sup>6</sup> <https://www.svp.ie/news-media/news/urgent-actions-required-to-keep-one-parent-familie.aspx?cat=socialjustice>

## SVP experience

SVP supports households struggling to get by on a low income, including households in work. Although employment offers a vital pathway out of poverty to many, for some low pay levels, low hours and other challenges including childcare and interaction with social welfare eligibility mean that work doesn't offer financial security. In 2019, SVP carried out a survey of our members to understand the experience of supporting households living in in-work poverty, the results of which are discussed in Box 1.

### **Box 1: SVP Member Survey: In-work Poverty**<sup>7</sup>

When asked about the benefits experienced by households with an adult in work the importance of work to self-esteem and mental health was prominent, alongside chances to socialise and 'keep busy'. 'Setting an example' to children was mentioned repeatedly, as was work offering 'hope' to progressively improve the family's finances. The material benefits of earnings were also raised – the chance to earn money for food and clothing – though not as often as other benefits.

Unfortunately, work for low-income families could also bring strain and precarity. When asked about the challenges facing households in low paid work, the costs of work including transport and childcare featured prominently, and the worry of balancing inflexible employment with the responsibilities of parenting. The difficulty of managing in an 'emergency' was mentioned, with money already tight meaning unexpected costs like a broken-down car could lead to 'panic'.

A theme that ran through the answers was the unpredictability of pay compared to social welfare income: seasonality, the decisions of employers, reliable transport to reach work, and sickness of adult or child were all factors that could lead to a sudden, unpredictable drop in earnings. Social welfare on the other hand would come in despite these unavoidable events.

Healthcare and health issues were notable amongst the survey answers. While the mental health benefits of work stood out so too did the worry of losing access to a

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<sup>7</sup> The Society of St Vincent de Paul has over 10,000 volunteers working in 1,200 local groups on the island of Ireland (North and South). In total, 134 local groups or "conferences" responded to the survey on in-work poverty. Each conference answered the questions based on their experience of supporting households in need. While the survey gives insight into SVP volunteers views and experiences, it is not a representative sample.

medical card and having to balance the benefits of work with the loss of other social protections. Time off sick (or caring for sick children) could lead to families who had been coping no longer managing.

Of the 134 respondents who answered the closed question 'Why are these households struggling to manage', the number one answer (ticked by 78 per cent of respondents) was 'Low paid work'. When asked 'What would improve the situation for the households in employment you are visiting' three answers came top with 69 per cent of respondents each choosing: 'Increase in the National Minimum Wage'; 'More supports for education or training'; and 'More supports for Childcare', followed less than 1 per cent behind by 'More flexible social welfare system.'

The picture painted by these answers are of families working hard to balance the significant benefits of employment with the strain of low paid work. Work offered 'hope' 'dignity' and 'self-esteem', but it could also lead to losing access to medical services and many other safety-net benefits, and 'panic' if an unavoidable event threatened to interrupt the working day.

### **In-work Poverty in Ireland**

Of the 630,000 people who are currently living in poverty in Ireland<sup>8</sup>, 15% are at work. Of the population experiencing deprivation 27% are at work.<sup>9</sup> Furthermore, in-work enforced deprivation was higher in 2019 than in 2007 and for every age group. It was three times the rate for under 25's (18.5 percent compared to 5.6 percent) and over twice the rate for 25–34-year-olds group (12.9 percent compared to 5.9 percent).<sup>10</sup> These figures reflect the fractured link between employment and financial security: rather than always offering a pathway out of poverty, too often work can leave people trapped on a low income struggling to meet day to day essential costs.

In 2019, almost 30 per cent of full-time, permanent employees wouldn't have been able to afford an unexpected expense, and this increased to just over 60 per cent of

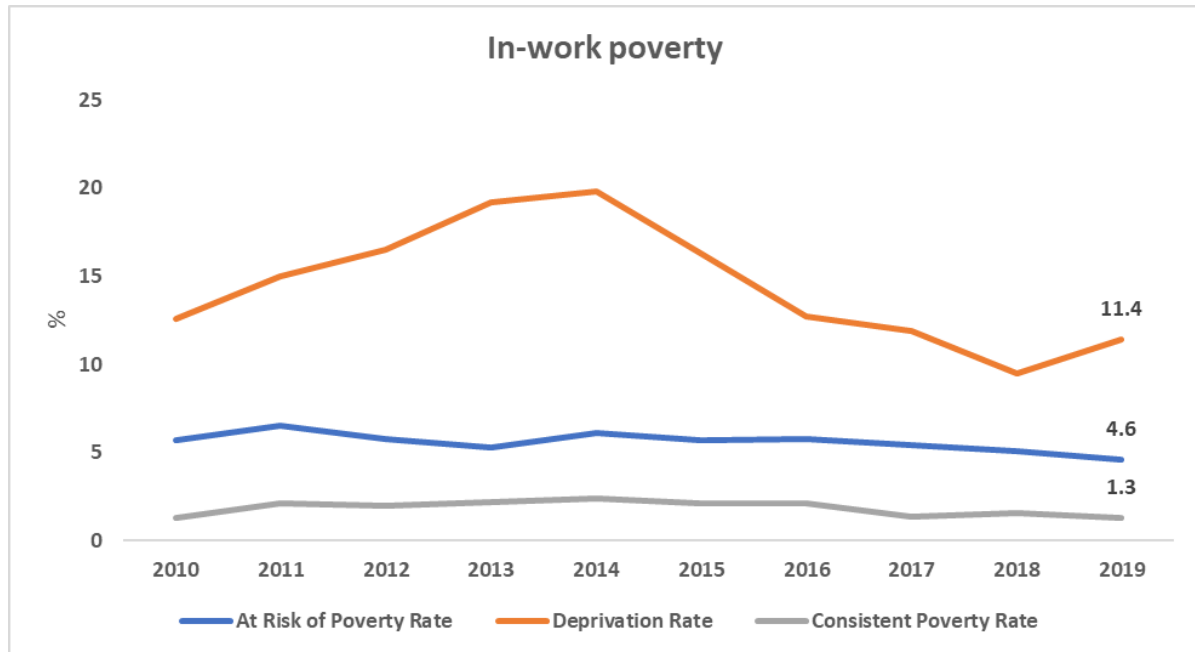
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<sup>8</sup> SILC SIA12 Income and Poverty Rates and PEA01 Population Estimates (Persons in April)

<sup>9</sup> SILC: SIA29 Profile of the Population at Risk of Poverty, Experiencing Deprivation and in Consistent Poverty

<sup>10</sup> <https://www.nerinstitute.net/blog/market-income-increased-less-1-2019-and-more-unequally-distributed-ireland-almost-any-other>

part-time workers<sup>11</sup>. The precarious financial position that low pay (and high living costs) leaves some workers in is unsustainable for individuals, and it is also unsustainable for the economy.



**Figure 1: In-work poverty trends 2010-2019**

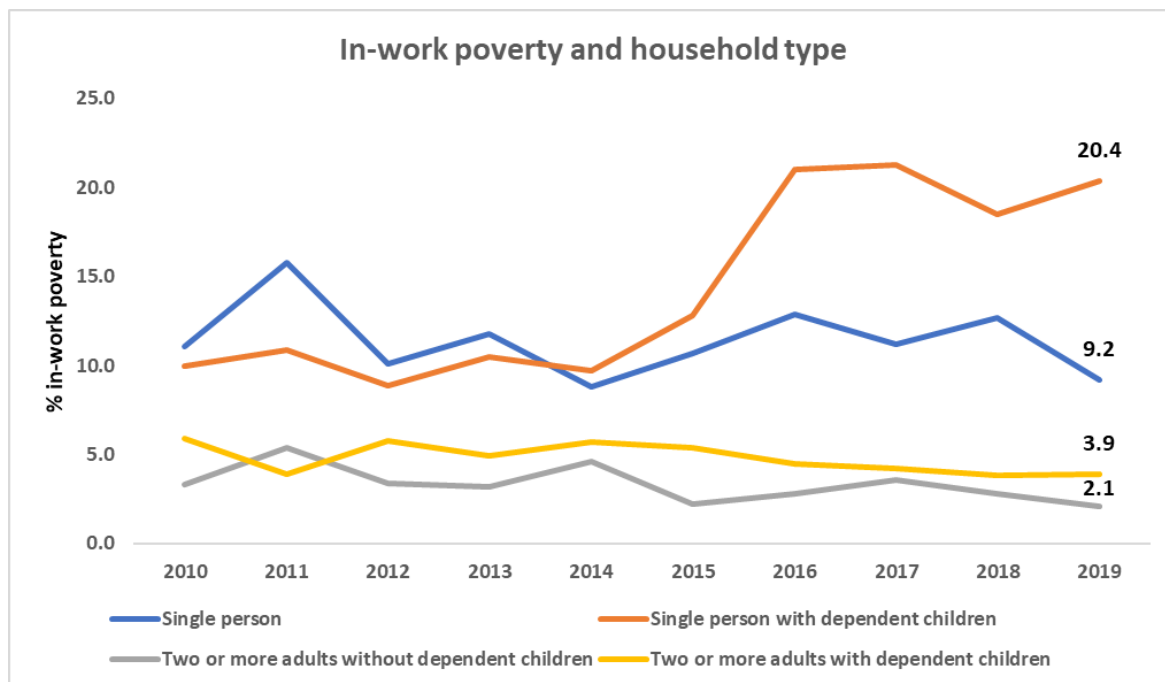
**Source: SILC SIA14: Income and Poverty Rates**

The chart above shows the rates of in-work poverty across the three main measures of poverty. We can see that for households in work, the At Risk of Poverty Rate has very slightly declined over the last fifteen years. The consistent poverty rate remains stubbornly between 1 and 2.5 per cent of those in work. The proportion of workers who experience deprivation shows much more fluctuation, and notably 2019 has seen a significant increase after a period of decline. Currently, 11.4 per cent of workers are going without the essentials they need, an increase of just under 2 percentage points since 2018.

The risk of being in in-work poverty differs significantly between household types, and lone parent families are particularly vulnerable. Figure 2 shows that despite a levelling

<sup>11</sup> Nugent, C. (2019) 'NERI Research InBrief: In-work poverty in the Republic of Ireland.' November 2019, No. 7. <https://www.neriinstitute.net/sites/default/files/research/2020/inBrief%20no%2071%20Nov%2019.pdf>

off and then a decrease between 2016 and 2018, the rate of in-work poverty for single persons with children is increasing again, rising from 18.5 per cent in 2018 to 20.4 per cent in 2019. This rate is now five times higher than households with two or more adults with dependent children. This continuation of the upward trend that we saw post-recession is a cause for concern, demonstrating that employment is not offering a route out of poverty for too many lone parents.



**Figure 2: In-work poverty and household type (2010-2019)**

**Source: EU-SILC survey [ilc\_iw02]**

In 2019 SVP published a report looking at the experience of lone parents in work called 'Working, Parenting, Struggling?'.<sup>12</sup> This report presented in-depth research into the drivers of poverty and deprivation for lone parents. The report found that the increase in in-work poverty levels accompanied increasing employment levels for the group, with data from the Department of Social Protection suggesting that increased

<sup>12</sup> SVP (2019) 'Working, Parenting, Struggling? An analysis of the employment and living conditions of one parent families in Ireland.' [https://issuu.com/svp15/docs/working\\_\\_parenting\\_and\\_struggling-\\_1?e=25010855/71456122](https://issuu.com/svp15/docs/working__parenting_and_struggling-_1?e=25010855/71456122)



employment levels for lone parents has mainly been in low income and low hours work<sup>13</sup>.

Ireland shares the challenge of high rates of in work poverty among lone parent families with other European jurisdictions<sup>14</sup>. This is largely attributed to the type of work many lone parents engage in, including low paid work, low hours work and precarious contracts.<sup>15</sup> The analysis demonstrated that the position of lone parents was exacerbated by both low incomes and high living costs, including housing and childcare, with 60% of lone parents unable to access childcare for financial reasons, and 45% of lone parents finding housing costs a heavy financial burden (in comparison with 30% of two parent families).

In jurisdictions with lower wage differentials, more flexible work, and state subsidised childcare, the OECD have found that lone parents have higher employment rates and are less likely to be in in-work poverty.<sup>16</sup>

## European Context

At the end of 2020 the European Commission proposed an EU Directive which would ensure that workers were guaranteed adequate minimum wages which would provide a decent standard of living, stating that ‘ensuring a decent living for workers and reducing in-work poverty is not only important during the crisis but also essential for a sustainable and inclusive economic recovery.’<sup>17</sup> This proposal by the Commission recognises the importance of guaranteeing a wage that meets the cost of living and the benefits to workers and their families, but also to employers and wider society. Tackling the economic polarisation that is leading to in-work poverty is seen by the

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<sup>13</sup> 8 SVP (2019) ‘Working, Parenting, Struggling? An analysis of the employment and living conditions of one parent families in Ireland.’ [https://issuu.com/svp15/docs/working\\_\\_parenting\\_and\\_struggling-\\_1?e=25010855/71456122](https://issuu.com/svp15/docs/working__parenting_and_struggling-_1?e=25010855/71456122)

<sup>14</sup> Jaehrling, K., Kalina, T. and Mesaros, L. (2015) ‘A paradox of activation strategies: why increasing labour market participation among single mothers failed to bring down poverty rates’, *Social Politics*, Vol 22 (1), pp86-110.

<sup>15</sup> Murphy, M. (2016) ‘Low road or high road? The post-crisis trajectory of Irish activation’, *Critical Social Policy*, Vol 36 (1), pp 1-21.

<sup>16</sup> OECD (2011) ‘Doing Better for Families’ <https://www.oecd.org/els/family/47719022.pdf>

<sup>17</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1968](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1968)

Commission as an essential part of recovering from the economic effects of the pandemic<sup>18</sup>.

Within the European context, Ireland has a high cost of living with the second highest household expenditure in the EU<sup>19</sup>. Despite having the second highest NMW rate in the EU, when this is adjusted for purchasing power Ireland's NMW rate falls to 7th<sup>20</sup>. This ranking does not include countries without statutory minimum wages – Austria, Denmark, Finland, Italy, Sweden and Norway – but instead minimum wages are implemented via collective bargaining agreements.<sup>21</sup>

As of 2018, the NMW in Ireland represented 42 per cent of the median wage<sup>22</sup>, which is low compared to other European countries<sup>23</sup> (and far below a Minimum Essential Standard of Living for many households). This gap between the NMW and median earnings has also grown significantly since 2000. In 2000, NMW represented 67 per cent of average median wage.<sup>24</sup>

Some services that are subsidised by the state in other European countries must be paid for by individuals in Ireland, decreasing the value of a household's net income. This means that for people below the at risk of poverty line, more of their income will go on certain services than for equivalent households in other countries.

For people in-work, childcare represents a significant outgoing in Ireland where costs are amongst the highest in OECD countries<sup>25</sup>. For a lone parent of two children on the

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<sup>18</sup> European Commission (2020) Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0682&from=EN>

<sup>19</sup> Eurostat: Comparative price levels [TEC00120]

<sup>20</sup> Malone, P. and O'Connell, P. (2019) 'The National Minimum Wage' PublicPolicy.ie [http://publicpolicy.ie/downloads/papers/2019/The\\_National\\_Minimum\\_Wage.pdf](http://publicpolicy.ie/downloads/papers/2019/The_National_Minimum_Wage.pdf)

<sup>21</sup> [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef20005en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef20005en.pdf)

<sup>22</sup> Callaghan, N. 'Social Impact Assessment 2018: National Minimum Wage.' IGEES <https://igees.gov.ie/wpcontent/uploads/2018/10/SIA-National-Minimum-Wage.pdf>

<sup>23</sup> Malone, P. and O'Connell, P. (2019) 'The National Minimum Wage' PublicPolicy.ie [http://publicpolicy.ie/downloads/papers/2019/The\\_National\\_Minimum\\_Wage.pdf](http://publicpolicy.ie/downloads/papers/2019/The_National_Minimum_Wage.pdf)

<sup>24</sup> OECD database "Minimum relative to average wages of full-time workers." <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

<sup>25</sup> Russell, H. et al (2018) 'Maternal Employment and the Cost of Childcare in Ireland.' ESRI and Pobal. <https://www.esri.ie/system/files?file=media/file-uploads/2018-11/RS73.pdf>

minimum wage, childcare costs would take up a quarter of their net income<sup>26</sup>. For a couple where one adult is on the NMW and one is paid at 67 per cent of the average wage, childcare would account for 28 per cent of their net income, the highest in the OECD.

As SVP have mentioned elsewhere, it should be noted that the At Risk of Poverty rate is presented before housing costs. Therefore, for households (such as those in the Private Rented Sector) who are paying very high prices for housing, their incomes will be significantly depleted after meeting their housing costs. ESRI have shown that people on low incomes (as well as those in the private rented sector, and those in Dublin and the Mid-East region) have been disproportionately impacted by increasing housing costs between 2006 and 2016<sup>27</sup>. They found that households in the bottom quarter of the income distribution spent an average of 40 per cent to a half of their income on housing, with 75 per cent paying more than 30 per cent of their income on housing<sup>28</sup>.

### UK experience

From April 2021 the UK's National Living Wage (NMW for older age bracket) will increase to £8.91 and apply to all workers aged over 23, down from 25<sup>29</sup>. The UK government has announced its ultimate goal for minimum wage policy is 'ending low pay in the UK' by increasing the bite of the NMW towards two thirds of median earnings<sup>30</sup>. In 2016 the UK government introduced a higher minimum wage for over 25s, called the 'National Living Wage'. In a departure from previous policy which saw the NMW recommended by the Low Pay Commission based on a judgement of what the market could bear, the NLW had a clear target set by government to reach 60 per cent of median earnings by 2020. This target has now been achieved by a trajectory

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<sup>26</sup> <https://stats.oecd.org/Index.aspx?DataSetCode=NCC>

<sup>27</sup> Corrigan, E. (2018) 'Working Paper No.593: Exploring Affordability in the Irish Housing Market.' ESRI <https://www.esri.ie/system/files/publications/WP593.pdf>

<sup>28</sup> Ibid.

<sup>29</sup> <https://www.acas.org.uk/national-minimum-wage-entitlement>

<sup>30</sup> Low Pay Commission (2019) 'The National Living Wage Beyond 2020' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/844178/The\\_National\\_Living\\_Wage\\_Beyond\\_2020\\_\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844178/The_National_Living_Wage_Beyond_2020__1_.pdf)

of an average increase of 6 per cent each year, putting an estimated £3 billion into the pockets of low paid workers<sup>31</sup>.

The impacts of the significant annual increases to the wage floor have been closely monitored for its impact on the economy and on workers. The UK LPC has reported positive impacts on wages and earnings from the introduction of the National Living Wage<sup>32</sup>. Workers with the lowest hourly wages have seen the fastest pay growth and due to the maintenance of pay differentials hourly wage increases have been seen up to thirtieth percentile of workers<sup>33</sup>. Although there is less impact on weekly earnings, there is evidence that the significant NLW increases have also had a positive impact<sup>34</sup>. In a review of NMW increases in an international context, Dube found no evidence of a negative impact on headcount or hours due to the NLW<sup>35</sup>, and focusing on Northern Ireland, ESRI found evidence that the NLW introduction led to zero employment and hours impacts in its first year<sup>36</sup>.

Modelling potential benefits of a different 'Living Wage' – the voluntary rate calculated according to the cost of living by the Living Wage Foundation - the Smith Institute investigated a scenario where a quarter of low paid workers in ten different areas of the UK had their pay increased to this higher rate of pay (which is derived from the UK calculation of a Minimum Income Standard)<sup>37</sup>. They found significant positive impacts on the local and regional economy though increased worker productivity and higher

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<sup>31</sup> Cominetti, N. (2019) 'Ain't no minimum high enough: Minimum Wage policy in the 2019 General Election'. Resolution Foundation. <https://www.resolutionfoundation.org/publications/aint-no-minimum-high-enough/>

<sup>32</sup> Low Pay Commission (2019) 'the National Living Wage Beyond 2020' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/844178/The\\_National\\_Living\\_Wage\\_Beyond\\_2020\\_\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844178/The_National_Living_Wage_Beyond_2020__1_.pdf)

<sup>33</sup> Ibid.

<sup>34</sup> Avram and Harkness (2019) cited in Low Pay Commission (2019) 'The National Living Wage Beyond 2020' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/844178/The\\_National\\_Living\\_Wage\\_Beyond\\_2020\\_\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844178/The_National_Living_Wage_Beyond_2020__1_.pdf)

<sup>35</sup> Dube, A. (2019) 'Impact of minimum wages: review of international evidence.' UK Government. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/844350/impacts\\_of\\_minimum\\_wages\\_review\\_of\\_the\\_international\\_evidence\\_Arindrajit\\_Dube\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844350/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf)

<sup>36</sup> McVicar, D., Park, A., McGuinness, D. (2017) 'Employment and hours impacts of the National Minimum Wage and National Living Wage in Northern Ireland.' ESRI. <https://www.esri.ie/system/files/media/fileuploads/2017-12/BKMNEXT348.pdf>

<sup>37</sup> Hunter, P. (2018) 'The local Living Wage dividend: An analysis of the impact of the Living Wage on ten city regions.' Smith Institute. <https://www.smith-institute.org.uk/book/the-local-living-wage-dividend/>

individual earnings, as well as direct benefits to the Treasury through increased taxation. This higher voluntary Living Wage has also been shown to have a positive impact on individual firms by reducing staff turnover and absenteeism and boosting motivation and productivity<sup>38</sup>.

### Interaction with social welfare

Budget 2021 saw some welcome measures for some people in work, including a €0.10 increase in the NMW (and related employer PRSI change), a €10 increase in weekly income thresholds for the Working Family Payment for families with up to three children, and the removal of the €425 income limit for parents on the One-Parent Family Payment.<sup>39</sup>

For those who are paid at or near the NMW level, social security levels and eligibility plays an important part of determining their overall income. The Low Pay Commission should continue to work closely with the Department for Social Protection to ensure that the interaction between welfare and work leaves employees able to receive the maximum benefit from an increased NMW rate.

#### *Means Tests:*

A range of welfare payments including the Back to School Clothing and Footwear Allowance (BSCFA), medical card and Working Family Payment (WFP) should be automatically index linked to rises in the NMW to maintain their value year on year. As the NMW progressively increases households have lost out on eligibility for these vital in-work supports<sup>40</sup>, and the Department for Social Protection should develop a strategy to future proof access to secondary supports through indexation.

Safeguarding access to supports should also apply to childcare subsidies, and SVP recommends that the Department of Social Protection and the Department of Children

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<sup>38</sup> <http://www.livingwage.org.uk/>

<sup>39</sup> Department of Employment Affairs and Social Protection (2020) 'Budget 2021: Main Social Welfare changes and rates of payments.'

<sup>40</sup> Callen et al (2019) Assessing the distributional impact of budgetary policy: the role of benchmarks and indexation [https://www.esri.ie/system/files/publications/BP202002\\_2.pdf](https://www.esri.ie/system/files/publications/BP202002_2.pdf)

work jointly to monitor the interaction between the NMW rates, social security supports and childcare subsidies to make sure all households who require support will still receive it. For tenants of Local Authority housing, income limits for Differential Rents should be indexed to NMW increases so tenants are not faced with continual rent increases as earnings rise.

#### *Earnings disregards:*

As with means testing, earnings disregards should be indexed to increases in the NMW to maintain the value of income supports. To protect the value of supports such as the One-Parent Family Payment we recommend that each year the LPC publish an analysis of the impact of increases of the NMW on all earnings disregards and eligibility thresholds.

### **Introducing a Living Wage**

SVP recommends that the NMW progressively increases to meet the level of the Living Wage within the lifetime of this Government. We welcomed the commitment in the Programme for Government to introduce a Living Wage, but this was not apparent in the NMW increase announced in Budget 2021. Despite the much-changed economic context due to the pandemic, we urge the Low Pay Commission to pursue a path towards a Living Wage in the coming years. This would offer a fair return for work to 4.6 per cent of workers at risk of poverty and the 11.4 workers experiencing deprivation.

#### Benchmarking against the MESL

Currently, the Living Wage is calculated at €12.30, €2.10 higher than the NMW rate. Based on the Minimum Essential Standard of Living (MESL), the Living Wage rate is calculated to offer a worker (based on the needs of a single adult working full time) a decent but basic standard of living.

The MESL rate is based on social consensus of what people need to live to a socially acceptable standard in Ireland today, and to purchase the goods and services they

need to be an active member of society. This is the least that an employee should be offered in return for their work.

The Vincentian Partnership for Social Justice have calculated that a single adult in the Dublin area would need to work more than 58 Hours at the 2021 NMW rate to afford a Minimum Essential Standard of Living, and that if they were employed in standard full-time contract paid at the NMW, they would only be able to meet 73% of their needs, with a weekly shortfall of €130 a week.<sup>41</sup>

Benchmarking the NMW against the MESL – after progressively closing the gap – provides the most secure way of ensuring that workers can meet the cost of living. The MESL basket includes everyday essentials such as food, electricity and heating. These essentials make up more of low paid households' outgoings than the 'basket' used to calculate inflation, and so the MESL increases faster than inflation<sup>42</sup>. According to the Vincentian Partnership this means that CPI inflation measures would underestimate the changes in the cost of living for low-income households by 9.7 percentage points between 2013 and 2018.<sup>43</sup>

Using the MESL to calculate the Living Wage provides a simple point of reference: that work should pay enough to make ends meet. This reflects the societal expectation that work should offer employees dignity and financial security. At SVP we believe that work should first and foremost offer workers the ability to have a decent standard of living and that this must be reflected in their basic rate of pay.

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<sup>41</sup> Vincentian Partnership for Social Justice (2020) 'Budget 2021: MESL Impact Briefing; [https://www.budgeting.ie/download/pdf/budget\\_2021\\_-\\_mesl\\_impact\\_briefing.pdf](https://www.budgeting.ie/download/pdf/budget_2021_-_mesl_impact_briefing.pdf)

<sup>42</sup> Vincentian Partnership for Social Justice (2019) 'Submission to Low Pay Commission' [https://www.budgeting.ie/download/pdf/vpsj\\_submission\\_to\\_lpc\\_2019.pdf](https://www.budgeting.ie/download/pdf/vpsj_submission_to_lpc_2019.pdf)

<sup>43</sup> Ibid.

## Building back better

The Ombudsman for Children has signalled that a Living Wage should be part of a Government investment to end child poverty<sup>44</sup>, and at SVP we see the Living Wage as a fundamental part of a pathway out of poverty for many households. In 2020 SVP published 'The Hidden Cost of Poverty: Estimating the Public Service Cost of Poverty in Ireland' by Dr Micháel Collins. The research found that the total cost of poverty to public services in Ireland annually is €4,491 million. Low pay is a driver of in-work poverty which has costs for public services. While primarily the cost of poverty is borne by those experiencing hardship and exclusion, the analysis illustrates the economic sense it makes for the Government to invest in ending poverty.

As we emerge from the pandemic workers must be offered an income floor that provides them with a decent standard of living. The National Minimum Wage is a powerful policy mechanism that should be used to pursue poverty reduction at a time when low paid workers need to see more money in their pockets. Ending low pay and in-work poverty and the precarious financial situation it leaves workers in must be a pillar of the recovery. The pandemic has brought hardship to so many families, and continues to do so, but as we rebuild the economy, we should do so with a commitment to ending poverty.

Increasing the NMW to a Living Wage would provide immediate benefits to workers and their families, save public services money currently spent on the cost of poverty, and invest in building the long-term resilience of low-income households.

We acknowledge and appreciate the difficulties the pandemic has caused to employers as well as employees and that labour costs present a challenge to many businesses, particularly to SMEs and across sectors such as tourism and hospitality where a large proportion of minimum wage workers are employed. Therefore, the increase we recommend to the NMW rate must be coupled with adequate supports to

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<sup>44</sup> <https://www.irishtimes.com/news/social-affairs/ombudsman-calls-for-covid-dividend-for-children-1.4491048>



businesses from Government to ensure that businesses are able to recover in a way that supports them to pay their workers a decent wage. Progressively moving towards a Living Wage will bring benefits to employers as well as employees, and we believe is part of building long term resilience across the economy.

### **Recommendations**

- **The LPC should pursue a path to a Living Wage that is benchmarked against the cost of living within the lifetime of this government**
- **The LPC should examine and publish the interaction between earnings and social welfare criteria at individual and household level.**