

# Paying the National Living Wage

In partnership with



## Sectors and employees affected

- Around a quarter of private sector employees will be directly affected by the introduction of the National Living Wage (NLW), double the proportion of public sector employees.
- Workplaces severely affected are concentrated in retail & wholesale and food & accommodation services.
- There are very high levels of part-time working (nearly half of the workforces) in severely affected workplaces.
- Younger workers – those between 25 and 29 make up 18% of employees directly affected by the NLW. But NLW is not just about young people – surprisingly, a third of those directly affected are aged over 50.

*Businesses may be forced to address discrepancies in wages as a consequence of the cliff-edges created by excluding those under 25 from the NLW.*

*The prevalence of part-time workers may present particular challenges to business because the case for investing in their skills may be weaker than for full-time workers.*

## Training and skills

- Many directly affected employees are in elementary occupations (28%), jobs which require no formal qualifications.
- A very large proportion (four in ten) of directly affected employees either have no qualifications at all or only GCSE-level qualifications.
- Severely affected workplaces are much less likely to provide ongoing training to their staff – with 46% providing no training or training to less than a fifth of their experienced staff in a six month period.

*The low stock of skills amongst those affected and the relative lack of access to in-work training mean that businesses and the Government will have to act to make sure that productivity rises alongside the regulated wage.*

## Factors affecting pay

- Severely affected workplaces have low levels of unionisation, and for 47% of them, pay settlements are driven by the level of the minimum wage. But for a sizeable number – 40% – financial performance is a key factor, raising questions as to how these firms deal with rising wage bills.

*Our evidence on how pay is determined in severely affected workplaces suggests that many firms will have to take big steps – such as increasing efficiency and performance – to be able to afford rises in their wage bill.*

- The new National Living Wage will be set at £7.20 from April 2016. The Government has an ambition that it should reach 60% of median earnings by 2020 (or around £9.30)
- The NLW adds a premium (or supplement) to the National Minimum Wage for all workers aged 25 and over. Workers under 25 will still be regulated by the National Minimum Wage.
- The OBR estimates that around 2¾ million employees will directly benefit. (OBR Economic Fiscal Outlook, November 2015). Early analysis (for example by Resolution Foundation, Taking up the floor and Higher Ground, 2015) has shown that women and those in the 25-30 age group are likely to benefit more as they are more likely to be on low pay.
- However, wage increases could also increase the risk of unemployment: the OBR estimates that unemployment will be 60,000 higher.

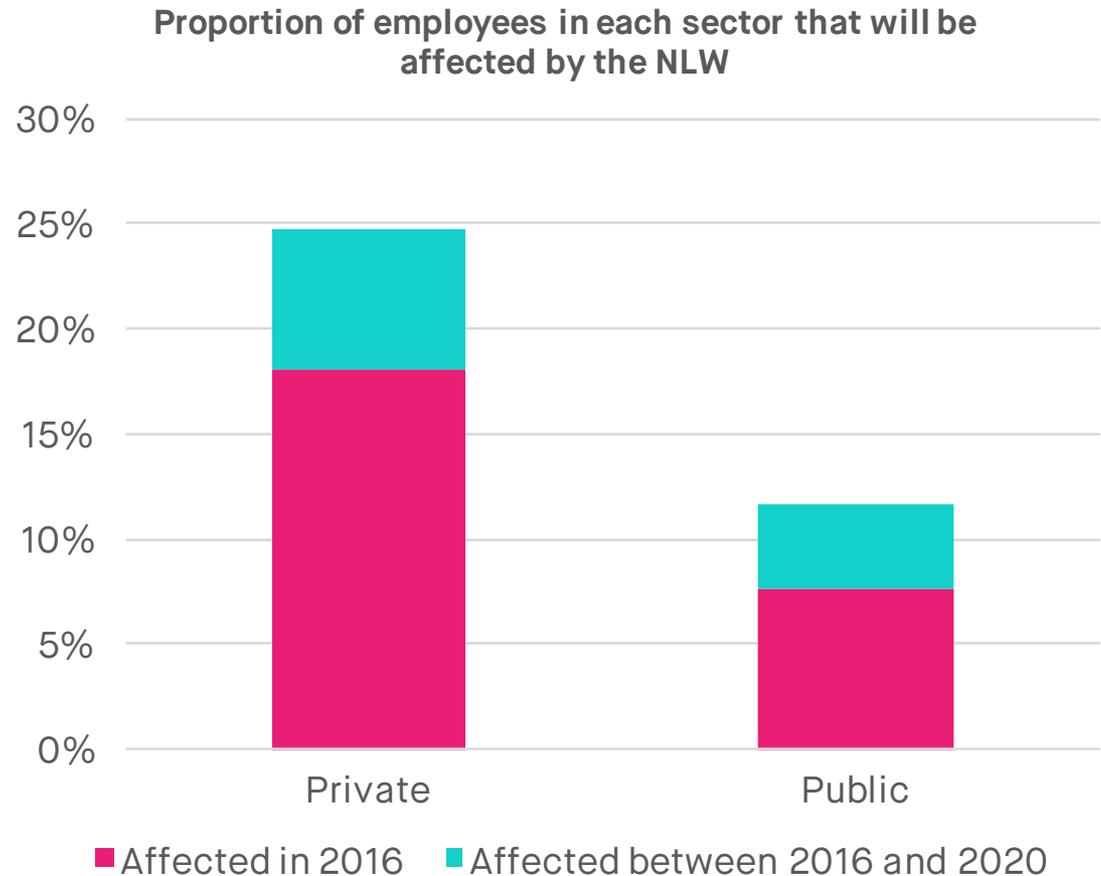
- The way in which businesses respond to the challenge of raising wages makes a crucial difference to whether workers will be better off after the NLW comes in.
- If businesses can increase productivity, for example through training and skills, improving performance or increasing investment, there is less likely to be a risk of higher unemployment. Businesses will also be faced with potential discrepancies in wages across their workforces, and the potential need to maintain differentials in pay across staff. **Our focus is on directly affected employees currently paid below the NLW, recognising that how businesses respond to the NLW will determine the size of any indirect effects on other employees.**
- The SMF, in partnership with Adecco, is examining what types of firms are likely to be most affected by the introduction of the NLW, how they can manage the transition, and what steps can be taken to improve productivity as wages rise. This is part of a wider programme of work examining the changing landscape of employment regulation.
- **This data pack sets out highlights from our analysis of what type of firms are likely to see the biggest impact on wage bills as the NLW comes in.**

- We present evidence from two datasets.
- The Workplace Employment Relations Survey (2011). In this survey we can look at the workplaces with high and low proportions of employees affected by the NLW by 2020, based on an estimate of what the NLW would have been had it been introduced at the time of the survey. We divide workplaces into two sets:
  - those workplaces that have half or more of their employees directly affected by the NLW – **“severely affected”**
  - those workplaces that have less than half of their employees directly affected by the NLW – **“weakly affected”**
- The Labour Force Survey (2014) provides information at an employee level and allows us to describe the characteristics of employees that will be directly affected by the NLW in 2016 and also in 2020. We divide employees into the following categories:
  - Affected immediately when the new NLW comes in 2016
  - Affected between 2016 and 2020
  - Not directly affected

## Private sector much more affected than public sector

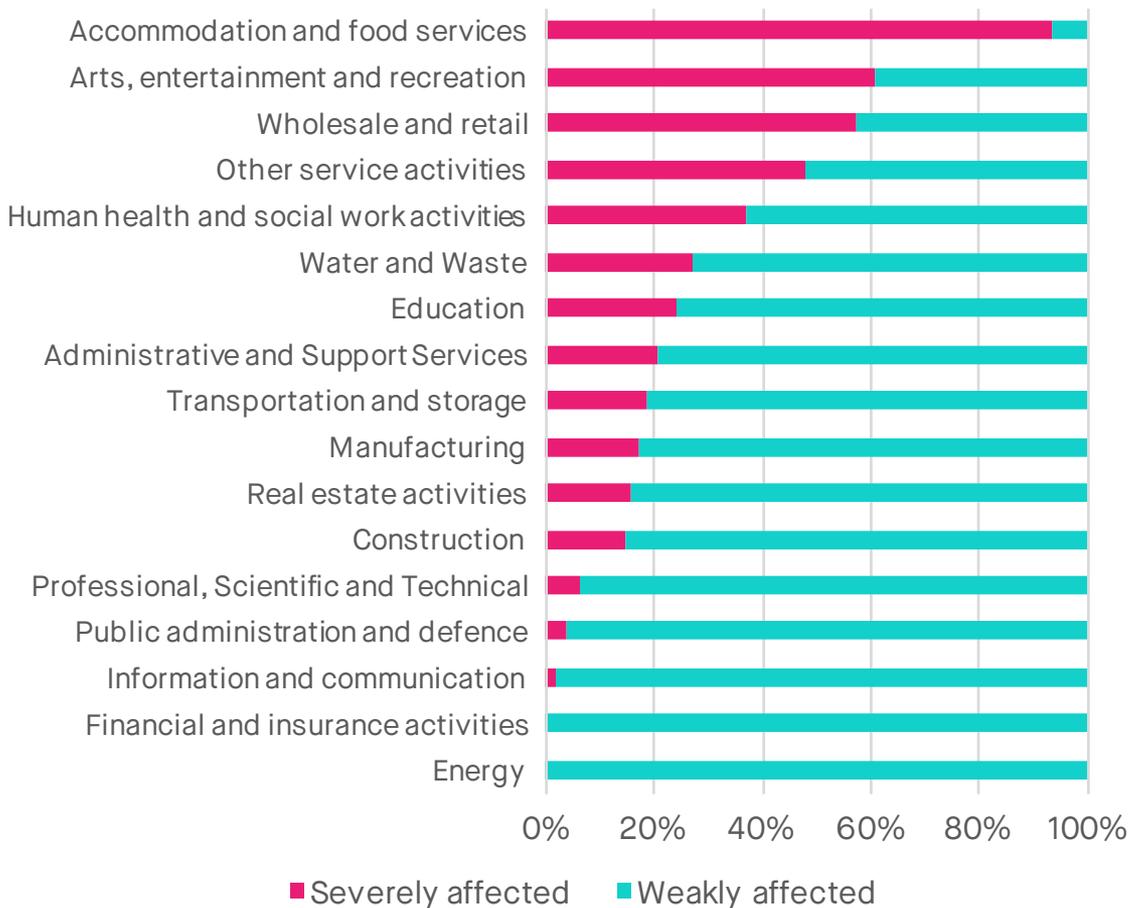
Almost a quarter of private sector employees will be affected by 2020, with 18% affected immediately in 2016.

By contrast, around 12% of public sector employees will be affected as pay is already higher there.



# Severely affected workplaces are concentrated in specific sectors

Proportion of workplaces severely affected, by sector



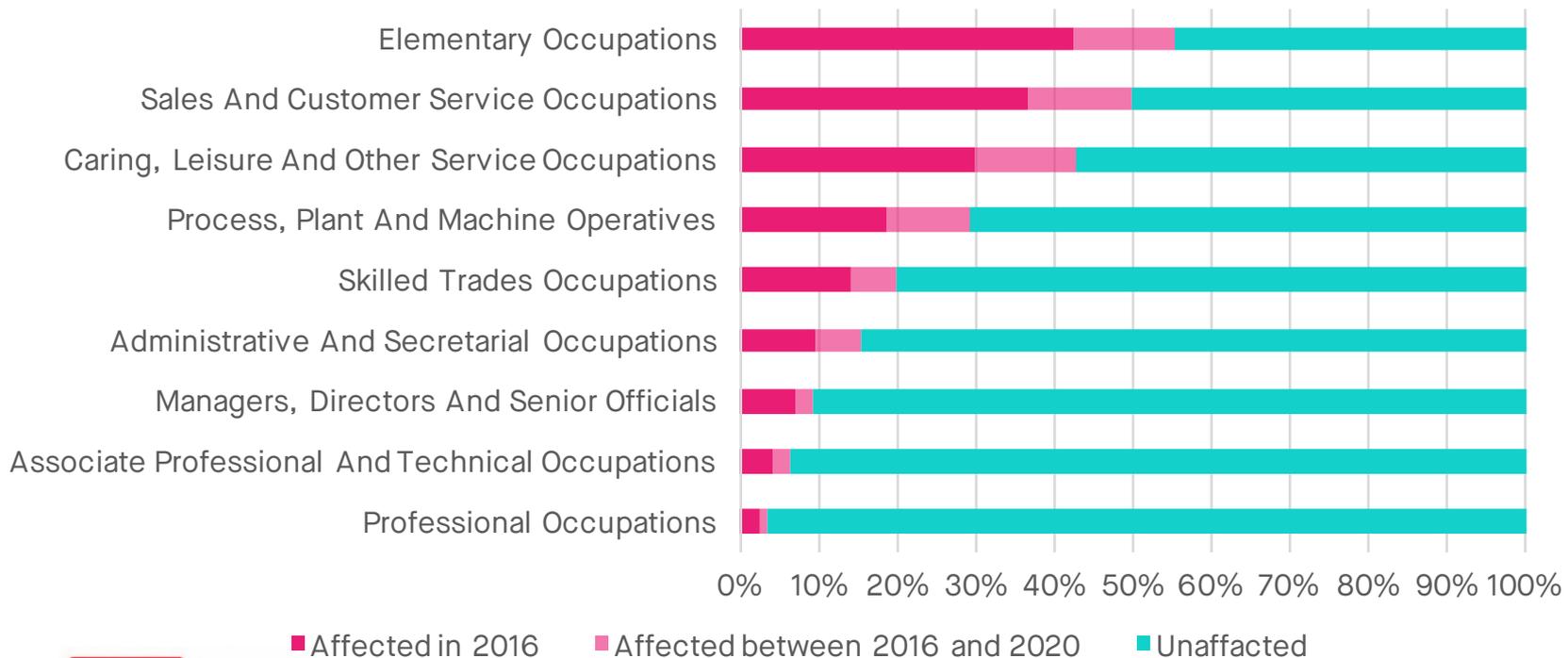
Workplaces facing the biggest challenges due to rising wage bills are in:

- accommodation and food (hotels & restaurants);
- arts, entertainment and recreation (although the sector is relatively small in absolute terms)
- wholesale and retail

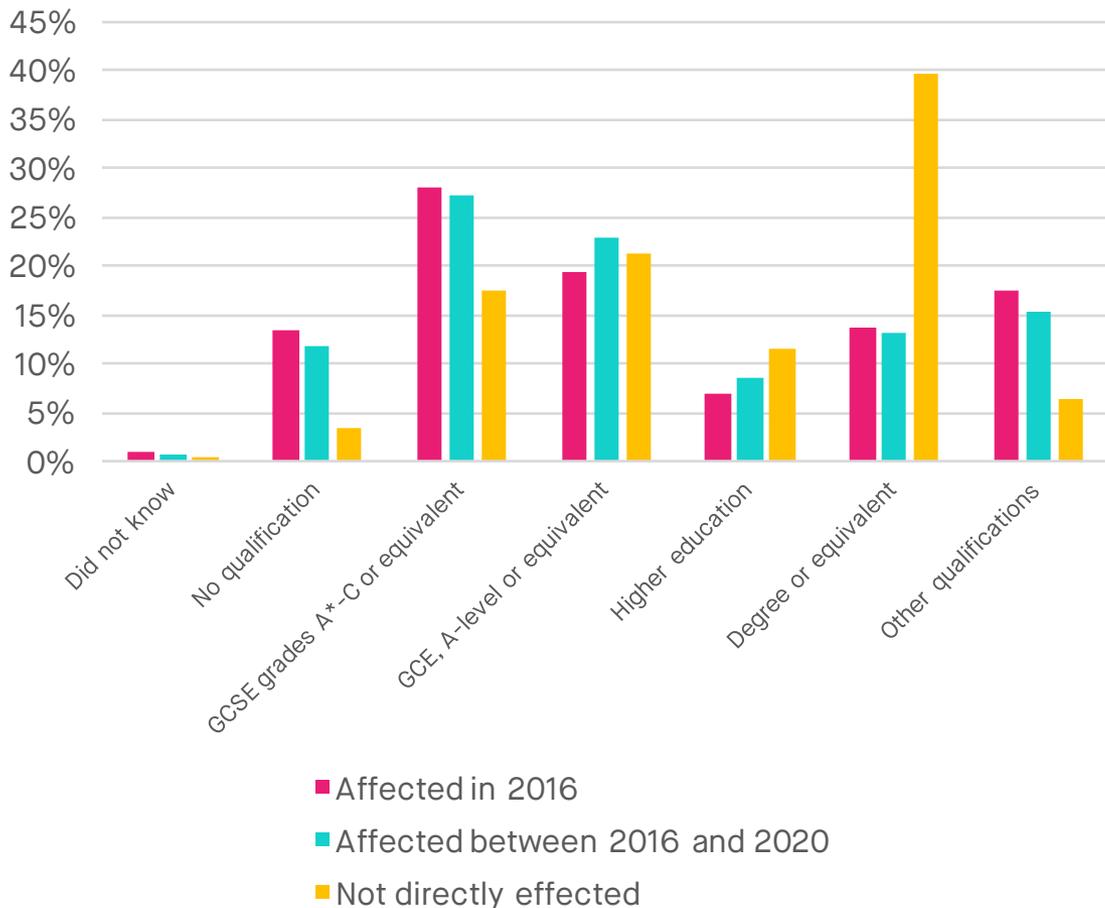
## Lower occupational groups much more likely to be affected

Over half of elementary occupations - jobs requiring no formal educational qualifications will be directly affected by the NLW. These include occupations such as labourers, cleaners, and shelf-fillers. In total, these workers account for 28% of all those immediately affected by the change in NLW in 2016. Caring, leisure and other services and sales are also significantly affected.

Proportion of occupation affected by NLW introduction



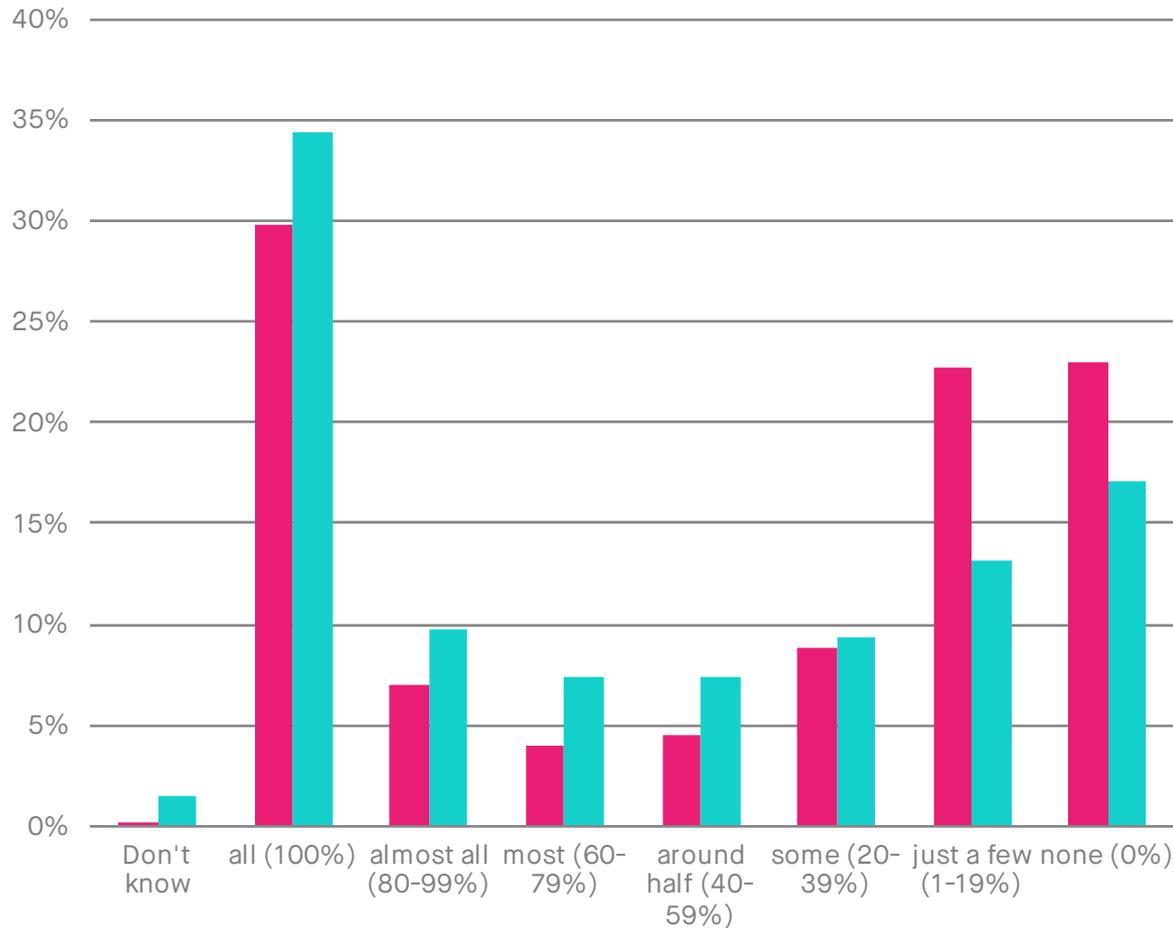
Breakdown of affected employees by skill level



Given the jobs that are most likely to be affected, it is unsurprising that four in ten of directly affected employees either have no qualifications or only GCSE level qualifications.

## Employees in severely affected workplaces are less likely to have received training

Proportion of experienced staff trained in last 6 months (% of workplaces)

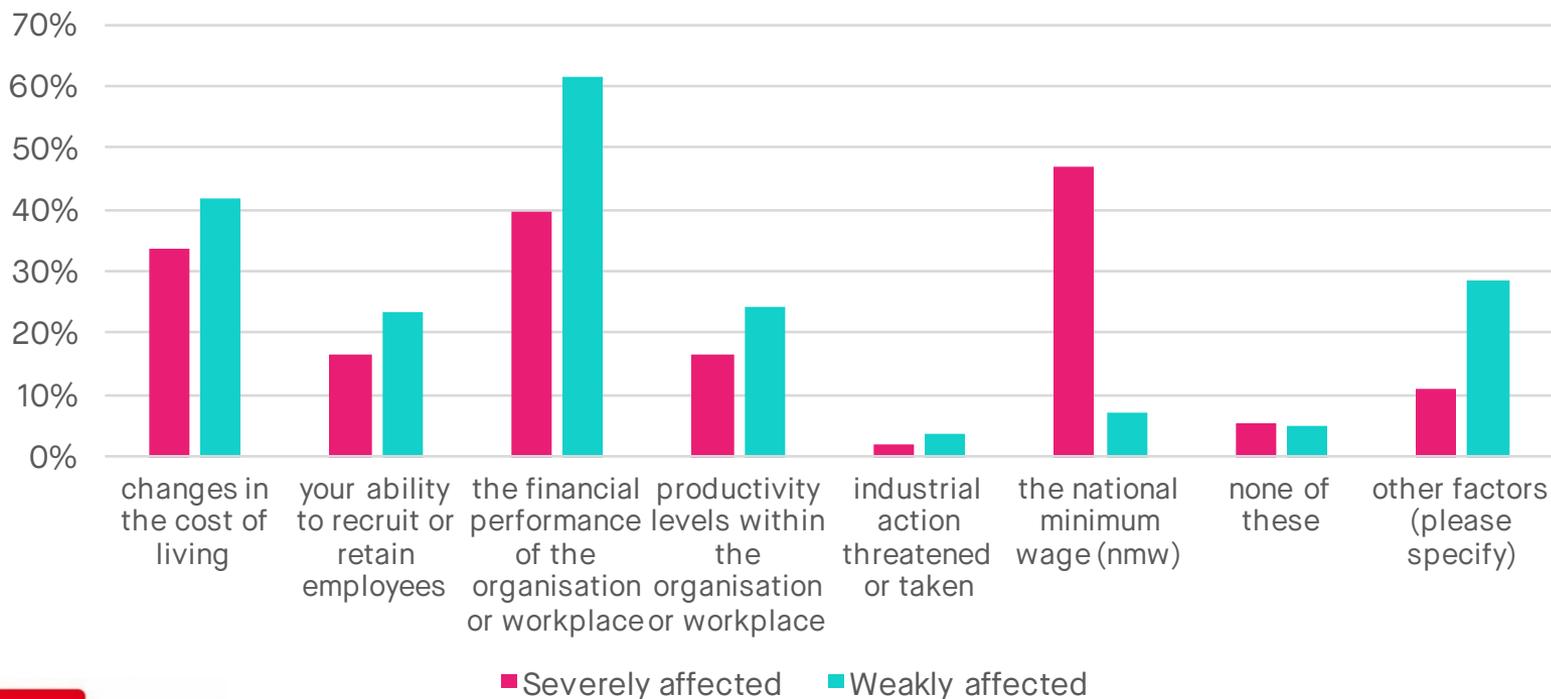


Severely affected workplaces are currently much less likely to provide training to staff – around 46% of them provided no training or training to less than a fifth of their experienced staff in the last six months.

## National Minimum Wage much more likely to be a factor determining pay settlement in severely affected workplaces

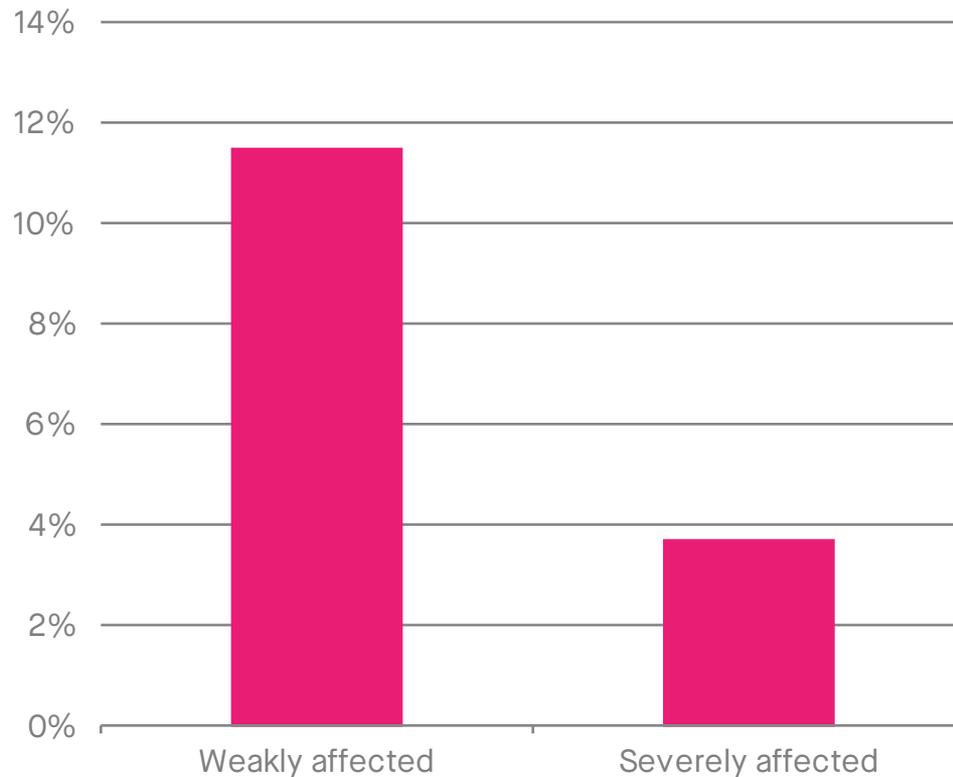
47% of severely affected workplaces say that the national minimum wage influences pay settlements. Around 40% of severely affected workplaces also cite the financial performance of the workplace as a factor, suggesting that wage rises could be an especially significant challenge.

Factors influencing size of pay settlement (% of workplace managers citing each factor)



## Severely affected workplaces likely to have lower levels of trade union membership

Proportion of employees in a workplace that are trade union members

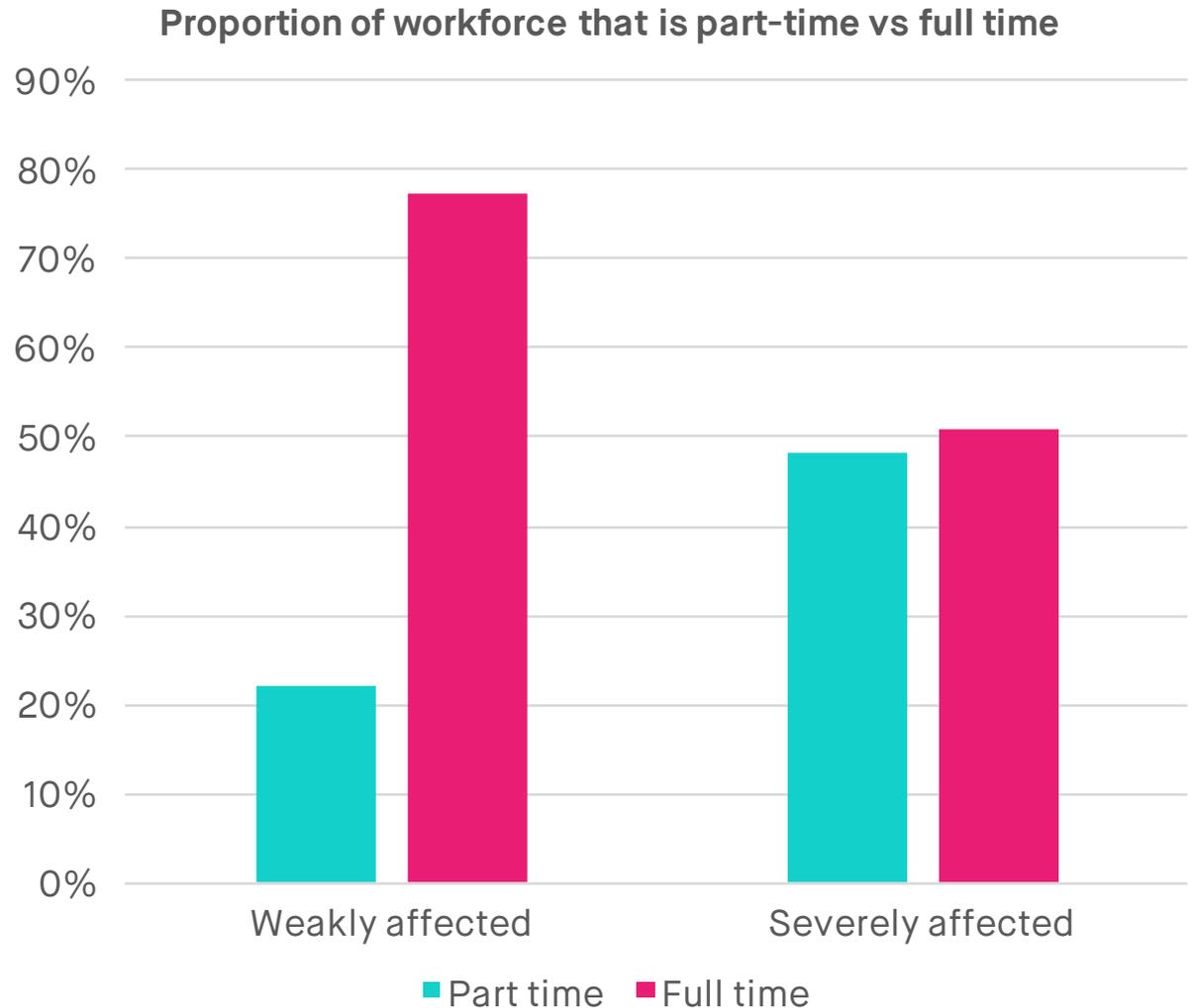


Levels of unionisation are much lower in severely affected workplaces – on average only 4% of employees are trade union members, compared to 11% in other workplaces.

## Severely affected workplaces have high proportion of part-time staff

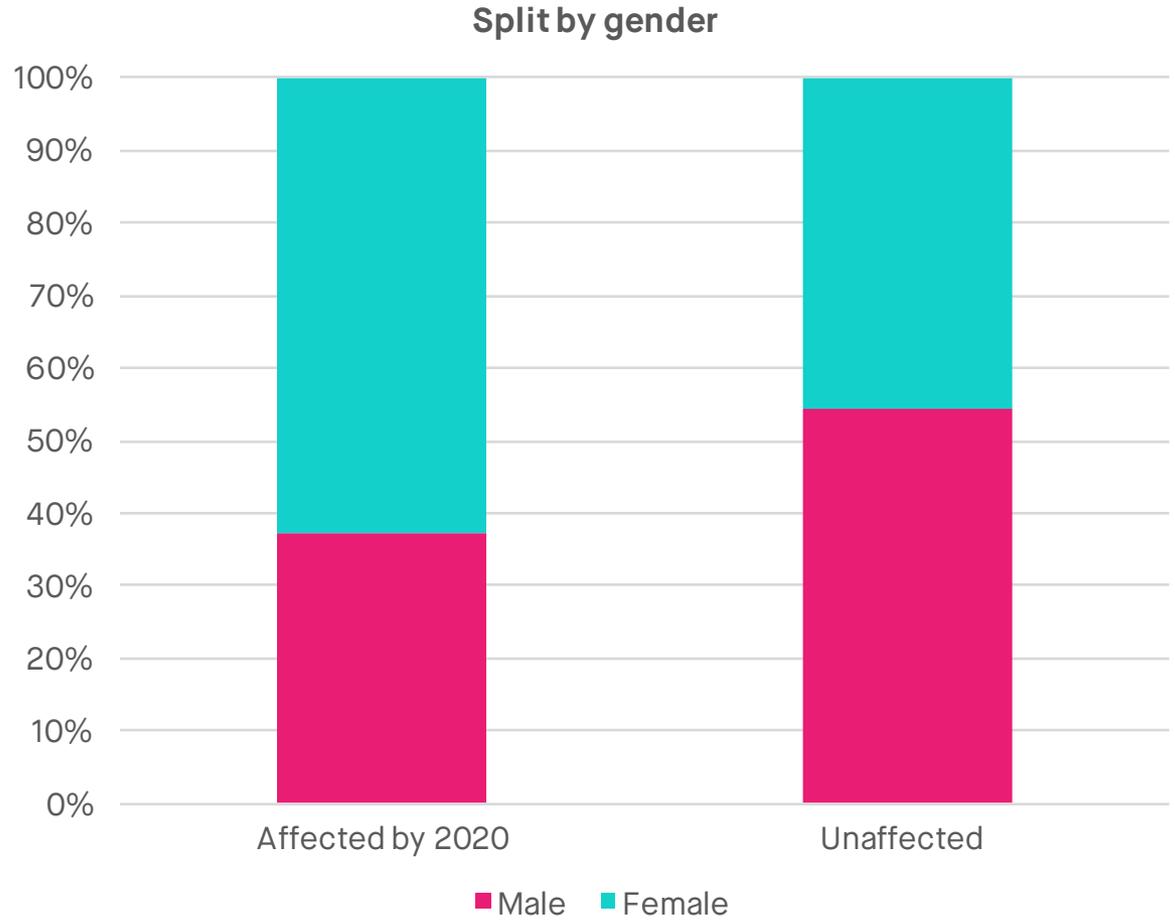
Part-time workers work 16 hours a week on average.

Severely affected workplaces are much more reliant on part-time staff: there is almost a 50:50 split between full-time and part-time in these workplaces.



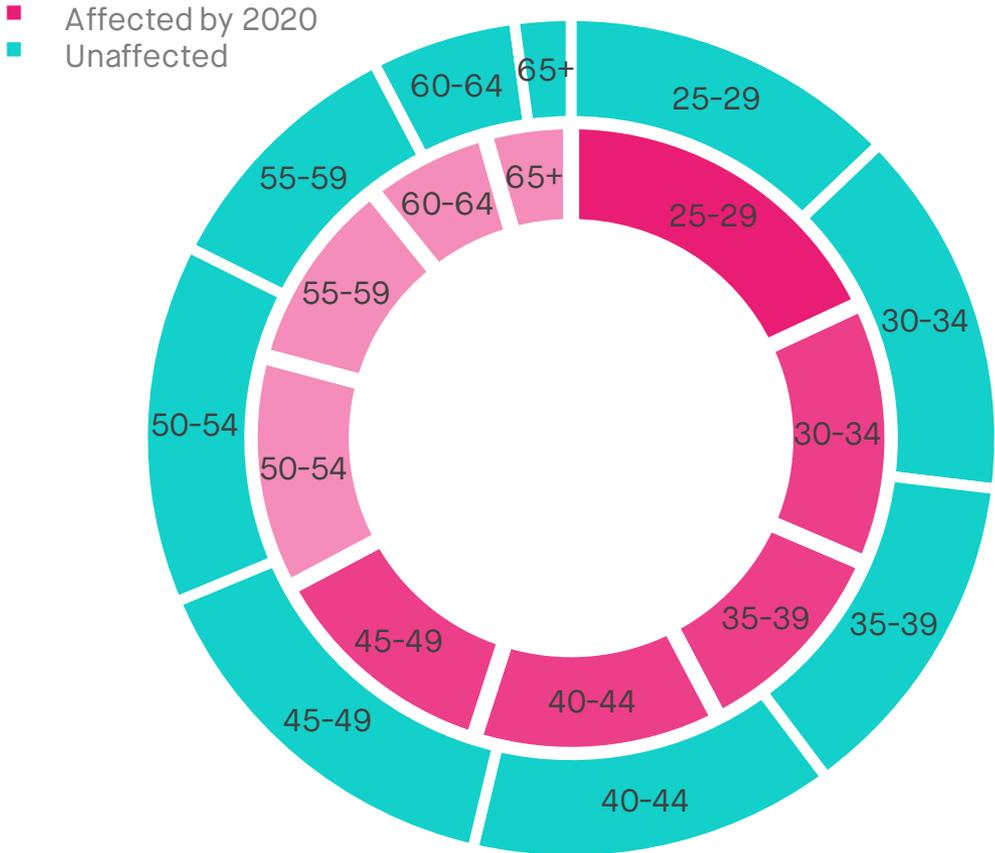
**Women are more likely to be affected by the introduction of NLW**

As women are more likely to be in low pay, they are more likely to be affected by the introduction of the National Living Wage.



**Employees affected are much more likely to be in younger age bracket but also older age bracket**

**Breakdown of affected workers by age group**



Younger workers – those between 25 and 29 - make up 18% of employees directly affected by the NLW.

This raises questions for how businesses will treat those just below the age threshold doing very similar jobs.

But NLW is not just about young people – a third of those directly affected are aged over 50.

## Workplace Employment Relations Survey (2011)

- The Workplace Employment Relations Survey (WERS) is a national survey, focussing on employment relations. It collects data from employers, employee representatives and employees in workplaces with five or more employees. The latest survey, from 2011, contains data from surveys with 2,680 managers and 21,981 employees.
- We use WERS to look at the proportion of workplaces with high and low proportions of employees affected by the NLW by 2020, and examine their characteristics. We divide workplaces into two sets:
  - those workplaces that have half or more of their employees directly affected by the NLW – **“severely affected”**
  - those workplaces that have less than half of their employees directly affected by the NLW – **“weakly affected”**
- To estimate the proportion of workplaces that are severely or weakly affected, we estimate what the 2020 NLW rate would have been if it had been introduced in 2011, based on projected and historical growth in earnings (£7.20). WERS provides data on the proportion of employees paid within specific ranges of hourly pay, and in particular, the proportion paid more than or less than £7.50, which we use as an approximation.

## Labour Force Survey

- The Quarterly Labour Force Survey (LFS) provides information at an employee level on pay, demographics and other characteristics of employees. We use the LFS to describe the characteristics of employees that will be directly affected by the NLW in 2016 and also in 2020.
- We pool data across four quarters to obtain full-year data for 2014. This is the latest full-year data available.
- To estimate the proportion of employees directly affected by the NLW, we estimate what the 2020 and 2016 NLW rates would have been if they had been introduced in 2014, based on projected and historical growth in earnings.
- We divide employees into the following categories:
  - Affected immediately when the new NLW comes in 2016
  - Affected between 2016 and 2020
  - Not directly affected