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An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland

Working Paper

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Executive Summary

The Irish economy has demonstrated remarkable resilience through what has been an unprecedent period of global uncertainty. A key indicator of the enduring strength of the economy is the record number of people at work, with over 2.7 million people employed in the State as of Q4 2023 and an unemployment rate of just 4.5% in January 2024. This is a considerable accomplishment given the challenges faced over the last number of years.

It is against this backdrop that the Government has introduced, or progressed, several initiatives relating to improvements to working conditions in Ireland, over recent years. These have included the right to request remote work, Statutory Sick Pay (mandatory paid sick days), the auto-enrolment retirement savings system[1], Parent's Leave and Parent's Benefit, the additional public holiday and the transition to a Living Wage (from the National Minimum Wage (NMW)). A graphical illustration is provided below. In addition, there are also planned increases to Pay Related Social Insurance (PRSI). These improvements involved extensive public consultation and refinement before they were adopted by Government, and each measure was signalled well in advance of implementation.

These measures are also being phased-in over time. For instance, both the Living Wage and Statutory Sick Pay will be rolled-out over a four-year period, from 2023 to 2026. In the case of the auto-enrolment retirement savings scheme, this is scheduled to commence in late-2024 and will be implemented on a phased basis over the next decade. The introduction of certain measures will, however, be subject to a degree of conditionality. For example, this means that the expansion of Statutory Sick Pay will proceed 'having regard to the state of the economy generally, the business environment and national competitiveness'.

Alongside these changes, PRSI contributions for employers, employees and the self-employed will be gradually increased between 2024 and 2028. In respect of PRSI, the threshold at which earnings fall liable to the higher rate was unchanged under Budget 2024. In practical terms, if the earnings of an employee have increased, then this would mean that in certain sectors the effective hourly cost of employing a worker would increase in excess of the change to hourly wage rates. This poses the potential risk that some employers might structure their employees' working hours or patterns in a way that would keep more workers within scope for the lower rate of the contribution. Such an outcome would clearly run contrary to the central objective of improving conditions for employees.

Crucially, these improvements to working conditions serve to bring Ireland into line with other EU and OECD countries. The latter typically have more Public Holidays than in Ireland, whilst measures such as Statutory Sick Pay and auto-enrolment retirement savings are a standard feature of the employment landscape in many countries. In the UK, for instance, workers already have access to these entitlements and the Living Wage there will increase to c. €13.40 (£11.44) per hour from April 2024 (compared to €12.70 per hour in Ireland). International evidence shows that countries perform better with policies and institutions which promote job quality, job quantity and

[1] It should be noted that the auto-enrolment retirement savings scheme is not relevant for those employees already in occupational schemes, or in PRSAs (or who don't otherwise meet eligibility criteria).

greater inclusiveness compared with countries focusing on labour market flexibility (OECD, 2019). The introduction of the National Living Wage in the UK reduced inequality in the bottom half of the hourly pay distribution and within each nation and region. From an international competitiveness perspective, measures enhancing working conditions can also help to attract and retain talent in Ireland.

The National Competitiveness and Productivity Council (NCPC) has previously welcomed these changes and noted the benefits that can be expected to accrue to both society and the economy. The Council did, however, recommend that an assessment of the combined impact of these measures be undertaken and this was accepted by Government (NCPC, 2020). At the direction of the Minister for Enterprise, Trade and Employment, we have sought to present an assessment which – in so far as is feasible – captures the costs and the benefits that may arise. We have used a variety of methods to estimate, quantitatively, the impact of each measure on employers. In so doing, we have also attempted to differentiate between the policy-driven costs associated with the transition to a Living Wage versus the upward wage pressures that would pertain even in the absence of this policy change.

An important aspect of the evidence presented in this paper is not simply the degree of asymmetry in terms of impacts across sectors – with some sectors likely to be unaffected by many of these changes – but also the degree of heterogeneity within sectors and how different firms within the same sector can experience different outcomes (i.e. large versus small, foreign-owned versus domestic, etc.). This is consistent with recent findings published by the OECD (Criscuolo et al, 2020) which noted the importance of understanding inter-firm differences (and noted incidence of same in areas such as wage dispersion, workforce composition, productivity, innovation and market power). It is for this reason that we have sought to present firm-level evidence, in addition to assessing the economy-wide impacts. We do so by, for example, setting out a range of stylised examples for specific firm types, with further qualitative evidence gathered through Case Studies and Workshops.

For many workers – and firms – the measures considered here will have little, if any, impact. This is because wage rates in many sectors are already in excess of the Living Wage target whilst occupational pension coverage – alongside measures such as paid sick leave, remote/hybrid working and other benefits – are already a feature of the working conditions pertaining in such sectors. This is not only the case for firms in those sectors typically characterised by (foreign-owned) Multinational Corporations (MNCs). Rather, this also holds true for a significant number of persons employed – rather than self-employed – across large swathes of the private sector. This will include many of those employees working in large domestic corporations and also those working in areas including, but not limited to, financial services; real estate; professional services (i.e., legal, accounting and consultancy); healthcare (i.e., medical and dental) as well as those working in the commercial semi-State sector.

Moreover, there are several occupations across the private sector which are already regulated in terms of both (minimum statutory) wage levels and other conditions of employment. These conditions are set out in Sectoral Employment Orders (e.g. construction) and Employment Regulation Orders (e.g. childcare services). In those sectors where these Orders apply, it is at the discretion of an employer to offer better terms and conditions than the specified minimum[2]. This does not preclude the possibility that employees in these sectors will, over time, seek improved wage rates in order to maintain some degree of relativity vis-á-vis the NMW. Similarly, there will be employers in sectors such as retail and hospitality that will have traditionally paid their employees at an hourly rate in excess of the NMW and which will now face calls for wage increases at a scale up to, or equal to, the change in the NMW (i.e., an upward wage spillover).

Nonetheless, certain measures will give rise to increased operating costs for *some firms* over the coming decade, particularly those in labour-intensive, relatively low-wage sectors typically characterised by low margins. Where a given firm is not in a position to absorb such costs over a given period, it can be expected that these will ultimately feed through to higher prices for consumers, albeit that a consumer's willingness – or ability – to pay will determine the effectiveness of this approach. Specifically, the continued upward trend in the cost of food, energy and rent will play a role here as will monetary policy as rising interest rates lead to higher borrowing costs and lower disposable incomes. This is particularly the case for those households with a tracker mortgage product and for those coming off of a fixed-rate mortgage product. In other cases, a firm may opt to re-examine their opening hours and/or the working patterns for their employees – perhaps by reducing average hours worked and/or reducing headcount – but once again, such an outcome would clearly run contrary to the central objective of improving conditions for employees.

Where additional payroll costs do arise, however, these are not a cost to the economy. Rather, these are a transfer from an employer to an employee and will lead to benefits that accrue to both the individual employee and to broader society. The central trade-off from a policy perspective then, is on the one hand, the benefits that will accrue to low-income employees and to society more broadly, versus the costs to be borne, in large part, by relatively low-margin businesses. We have endeavoured to clearly set out these benefits and costs in our assessment of the impact of these changes. We have also sought to assist the reader by presenting graphical illustrations of same (pp. 12-13). The Heatmap presented here is intended to show, at a glance, the potential impact that these measures may have on individual sectors (at a broad sectoral level). The classification of each measure as having a high, medium or low impact should be understood in relative terms. These are the authors' own estimate (based on the evidence that is presented throughout this report)[3].

This is also the case for the diagram outlining the trade-off between the additional costs arising for firms and the individual and societal benefits associated with each measure. It should be noted that where impact is referred to as 'low', this does not mean that there will 'no' impact as experience is likely to differ firm-by-firm (even within the same sector). Furthermore, even in cases where firms do not see a significant direct payroll impact, there may be an indirect impact associated with the transmission of increased input costs through the supply chain from firms that are directly impacted (i.e., second-round effects) as well as via the aforementioned wage spillovers.

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[2] It is important to note that SEOs/EROs are prepared at a given point in time, and statutory frameworks may evolve thereafter. It therefore could transpire that existing schemes under extant Orders are found not to meet the relevant requirements (and that further costs could arise beyond those considered here).

[3] This assessment was made with reference to multiple criteria, including the concentration of NMW workers by sector, median wage levels, the applicability of SEOs/EROs by sector, and qualitative feedback.

Assessing Potential Benefits

The rationale for these measures is grounded in the benefits associated with these changes over time. For example, the uptake of remote working could bring economic benefits to regional areas from increased footfall in these locations, encouraging broad-based productivity growth from a regional perspective (Williamson, 2022). These measures can also incentivise greater participation by underrepresented cohorts in our labour market. Policies promoting paid sick leave can improve participation rates for those with disabilities, while Parental Leave arrangements can promote female participation in the labour market. For the individual employee, good conditions at work not only improve well-being but can also improve staff motivation. This, in turn, can yield a potential benefit to employers by way of increased productivity, a reduced incidence of 'presenteeism' – in the case of those who are unwell – and a reduction in the costs associated with staff turnover. The expansion of Statutory Sick Pay will also ensure that employees do not feel a financial imperative to attend work when sick, particularly for those working in a care environment and/or those with a communicable illness which could impact on their co-workers and those in their care.

The improvements to working conditions examined here will make an important contribution to the delivery on a range of commitments set out in Ireland's *Roadmap for Social Inclusion, 2020-2025.* Specifically, these will, over time, contribute to raising disposable incomes and reducing in-work poverty rates. At the level of an individual worker, the introduction of the auto-enrolment retirement savings system means a reduction in the risk of poverty and social exclusion at retirement. At the macroeconomic level, this will facilitate consumption smoothing and help to maintain future living standards which is particularly important given pensioners are forecast to become an increasing proportion of the population over the coming decades.

Increased disposable income for low-paid workers will lead to increased spending across the economy. The measures in this report can also assist employers by reducing costs associated with staff turnover. Finally, forthcoming changes to Ireland's PRSI system (as detailed in the PRSI Roadmap) will help to secure the long-term sustainability of Ireland's Social Insurance Fund (SIF), ensuring that the Fund can continue to meet the needs of an aging population.

Assessing Potential Costs

The various measures assessed here will inevitably impose additional costs on employers in certain sectors. We examine the potential impact of these measures on payroll costs for firms, noting that payroll costs account for a significantly greater proportion of overall operating costs in more labour-intensive sectors, such as hospitality, retail and personal services.

Our aggregate – or economy-wide – assessment suggests that the payroll cost impact could range from 1.8% to 2.2% by 2026, with the largest costs arising from the introduction of a Living Wage[4] and the auto-enrolment retirement savings scheme. In terms of the transition to a Living Wage, whilst a significant increase did come into effect from January 2024 (+12.4%) there are further steps to be taken in 2025 and 2026 in order to meet the 60%

[4] Not including youth rates: at the time of writing, the NMW for those aged under 20 years is less than the NMW for those aged 20 and over. The LPC is considering further recommendations in this regard.

target as set out by the Low Pay Commission (LPC). It is important, however, to be clear that wage levels across the various sectors of the economy would not have remained unchanged in the absence of this transition. Furthermore, the impact will vary significantly by sector. Among the most affected will be labour-intensive and low-margin sectors including, *for example*, hospitality and retail. Both the hospitality and retail sectors are important sources of employment for Ireland, particularly in more rural areas, and are a fundamental component of Ireland's tourist offering.

Our stylised analysis of the ***combined impact*** of these various measures indicates that – under stated assumptions[5] – a small hospitality business could see a policy-driven increase in its payroll costs for 2024 (relative to 2023) of 6.6%. This projected increase is closer to 19.4% by 2026[6]. In overall terms, this equates to an increase of 14.5% and 36.7% by 2024 and 2026, respectively (when the full impact of the transition to a Living Wage is accounted for). Many employees will already have access to an employer-provided occupational pension scheme (or PRSA) but where this is not the case, the introduction of the auto-enrolment retirement savings scheme is projected to account for 1.5 percentage points of this change in each year to 2026, but employer contributions will continue to increase beyond that point. This component will increase to 6% of gross pay in subsequent years[7]. In contrast, a large MNC – operating in sectors such as ICT or pharma – might experience only a negligible increase in costs over the same period.

While Ireland has ranked highly (2nd) in the IMD World Competitiveness rankings (NCPC, 2023a), it should be noted that traded sectors which face international competition may see cost competitiveness impacts from these measures. By contrast, increasing payroll costs are arguably less impactful from a competitiveness perspective in the case of non-traded sectors given that similar firms in the same locality will all face the same additional costs. Apart from the direct costs associated with these improvements to working conditions, in some cases, implementation will bring indirect compliance costs for employers (including time).

It is important to bear in mind that there are measures in place to mitigate any costs pressures that might arise. For instance, in the case of the Statutory Sick Pay arrangements the application of the €110 threshold will serve to constrain the additional costs for employers. This payment will also only be available where a person is medically certified by a GP as sick and where that person has a minimum of 13 weeks' continuous service with their employer. Furthermore, the Sick Leave Act 2022 provides for a temporary exemption from the requirement to pay sick pay where the employer is in financial difficulty. In the case of Parent's Leave, there is no legal obligation on an employer to pay employees during this period. Moreover, employees are required to provide six weeks' notice, whilst an employer has the right to defer leave for up to 12 weeks. The phasing-in of these changes will also assist in mitigating against their potential cost impact.

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[5] These are outlined in Chapter 4. It is important to note that these estimates assume no change to the opening hours or staffing patterns of a business subsequent to the introduction of these measures.

[6] This is a stylised example, which assumes that all staff are on the minimum wage. This estimate **excludes** the impact of increasing rates of Employer PRSI. It refers specifically to auto-enrolment retirement savings (+1.5%), Statutory Sick Pay (+2%) and the policy component of the transition to a Living Wage (+15.5%). In the case of the example presented here, the full increase in the Living Wage equates to + 32.8% (giving an overall increase of 36.7%).

[7] Contributions from employers will rise to 6% by 2033.

Additional Considerations

When examining the impact of these changes, from both an employer and an employee perspective, it is important to consider the current context of price and cost pressures. There has been a significant rise in business costs (and consumer price inflation) as the effects of the pandemic unwound with a rapid resumption in economic activity. This occurred amid heightened geopolitical uncertainty, which disrupted supply chains and caused large rises in international prices for energy, food, and other commodities. While there were significant improvements in wholesale price inflation throughout 2023, energy costs are still far higher than pre-COVID-19. The restoration of the 13.5% VAT rate for the hospitality and tourism sectors will further add to the cost pressures for firms operating in these sectors. For firms exporting to the UK, there will be further disruption on foot of the planned commencement of customs changes from this year.

Among the measures introduced by Government to support the enterprise sector through COVID-19, was the warehousing of tax debt at reduced rates of interest. While this warehoused debt will fall due from 2024, Government has recently announced that 0% interest will be applied to warehoused debt, and increased flexibility will apply in relation to payment breaks (Department of Finance, 2024). According to data from the Revenue (as of 26 January 2024), there was €1.7bn in warehoused tax debt owed to Revenue from 57,435 companies, of which almost 70% is accounted for by amounts less than €5,000. The bulk of the debt (€1.3 billion) is warehoused by 3,067 customers, each with an outstanding balance greater than €100,000[8], albeit that there is a significant variation in terms of the warehoused debt by firm size (and regarding the mean, median and range of the debt). The overall warehoused debt has decreased substantially since January 2022 when almost €3 billion was warehoused for over 100,000 customers.

Analysis by PwC indicates that, while there has been an increase in insolvency levels, annual business failure rates in 2023 remain lower than pre-pandemic levels. PwC's business failure rate in 2023 reached 27 per 10,000 companies compared to 36 per 10,000 in 2019 – but is still well below the peak of 109 per 10,000 businesses in 2012. According to PwC, the UK insolvency rate is still 1.9 times higher than in Ireland. However, there is evidence of a time lag between economic shocks and their impact on business closures in developed economies, and thus a return to pre-pandemic insolvency levels is inevitable. Some commentators have pointed out that the issue is particularly acute for businesses in sectors worst hit by COVID-19, but problems are also emerging for manufacturers (PwC, 2024). The retail sector had the highest number of business failures in 2023, with 144 (an increase of 50% from 2022), followed by hospitality, with 127 (up 53% from 2022). Construction was the third most impacted, with 97 business failures. When taken together, the retail, hospitality and construction sectors made up over half (51%) of all insolvencies in 2023.

State Supports for the Enterprise Sector

Notwithstanding these challenges, it must be recognised that the State has provided extensive supports to the enterprise sector over recent years – overall, approximately €20 billion has been provided in response to both Brexit and the COVID-19 pandemic, including wage subsidies as well as a series of bespoke voucher, loan and

[8] This is not to suggest that each of these customers have been unwilling, or unable, to repay this date up to now as the motivation for carrying a low-cost debt will likely vary.

grant schemes. This is an unprecedented level of Exchequer support and it may also be the case that the scale of State intervention provided over recent crises have held the rate of business closures lower than would have prevailed in other times (and/or enabled otherwise unviable firms to continue trading) (CRIFVision-Net, 2023).

Further, in the two-years prior to Budget 2024, a total of €12 billion was provided in cost of living and business supports, comprising a mix of permanent and one-off measures, to absorb some of the impact and ease the burden of inflation on both households and businesses. In supporting households, this has also indirectly benefited firms by maintain consumer consumption/demand. The main programme introduced by Government to alleviate cost pressures for enterprise was the Temporary Business Energy Support Scheme (TBESS) with businesses receiving direct payments and tax liability offsets to the value of €150.5 million. This was followed by the Business Users Support Scheme for Kerosene (BUSSK) which also compensated eligible businesses for higher energy costs.

Budget 2024 continued this approach with a range of measures aimed at supporting Ireland's enterprise sector, including the introduction of the Increased Cost of Business (ICOB) grant scheme which will provide a once-off grant to benefit a significant number of small and medium businesses at a cost of €257 million (see Annex A). Recent budgetary measures aside, the State has long pursued a supportive policy stance towards the enterprise sector, with a pro-enterprise – and in particular, a pro-SME – approach to industrial policy. The State's overall offering has included significantly lower rates of taxation than are levied-on businesses across the rest of the EU. Ireland has one of the lowest Corporation Tax rates in the EU, the threshold for VAT registration in Ireland is higher than elsewhere in the EU, and Ireland's highest rate of Employers' PRSI at 11.05% compares to Social Insurance Contribution rates for employers across the EU-27 plus UK which average at 21.21% (see Annex G).

The Irish economy has been through an extended period of economic expansion, with capacity constraints emerging on multiple fronts. However, natural fluctuations in the economic or business cycle can be expected, with periods of expansion and growth followed by periods of moderation or contraction. The State's medium-term approach to enterprise policy will be guided by the White Paper on Enterprise 2022-2030, published in December 2023. The White Paper sets out a vision for Irish-based enterprise to succeed through competitive advantage founded on sustainability, innovation and productivity. The approach outlined in the White Paper aims to ensure that Ireland continues to build on its economic strengths of an open economy with strong trade and foreign direct investment, a vibrant innovation hub, and a resilient labour market.

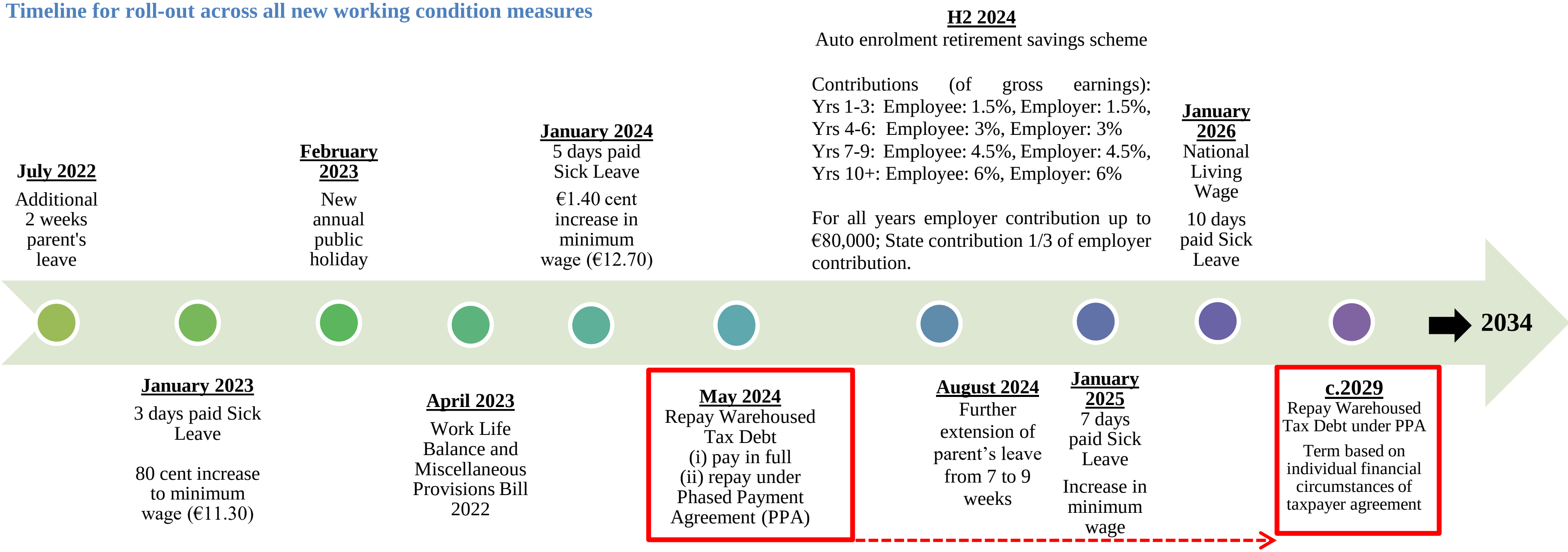
Next Steps

In undertaking this work, our objective has been to undertake a detailed and multi-faceted examination of the overarching impacts – both costs and benefits – associated with the introduction of the various measures introduced and to provide a factual assessment drawing on both primary research and international experience. It is specifically *not within scope* of this paper to make policy recommendations but undoubtedly the evidence presented here will help to inform the development of public policy in this space.

This assessment is in respect of a suite measures for which implementation is still underway. In some cases, implementation will take place over several years (e.g. auto-enrolment retirement savings, Statutory Sick Pay and the transition to the Living Wage). At the time of writing, the auto-enrolment retirement savings scheme has not commenced. The same applies in the case of the PRSI Roadmap. It is important that these measure are subject to further and ongoing evaluation, and that the necessary data and information is gathered to facilitate future assessments.

Key Tables and Figures

Timeline for roll-out across all new working condition measures



Scheduled rollout of increases to PRSI, Sick Pay and Auto-enrolment retirement savings scheme, 2022-2033

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PRSI Annual increase	-	0.1%	0.1%	0.15%	0.15%	0.2%	-	-	-	-	-
Sick Pay Total days	3	5	7	10	10	10	10	10	10	10	10
Auto-enrolment retirement savings Employer contributions (as currently scheduled)	-	1.5%	1.5%	1.5%	3%	3%	3%	4.5%	4.5%	4.5%	6%

Number of countries with measures in place compared to Ireland

	Ireland	Euro Area	EU27	OECD	UK	USA
Statutory Sick Pay	Yes (as of January 2023)	18/20	25/27	35/38	Yes	No
Auto-enrolment Retirement Savings (or	No	18/20	25/27	37/38	Yes	Yes
Number of Public Holidays	10 (as of 2023)	12 (average)	12 (average)	11 (average)	8	10
Remote Working legislation	Yes	14/20	15/27	25/38	Yes	No
Living Wage (NMW @ c.60% of median gross earnings)[9]	No (53%)	3/15[10]	4/20[11]	-	Yes[12] (£11.44/c.€13.40 as of April 2024)	Min wage $7.25 (variation by state)

Source: MISSOC.org; OECD; parliament.br; Croatia.hr; worldtravelguide.net; Visit Malta; *New remote working legislation around the world* [Updated], globalnews.lockton.com, 29 September 2023; *Telework still largely regulated at company level in Europe*, Eurofound.europa.eu, 1 September 2022; *Right To Request Remote Working – International Review*, Department of Enterprise, Trade and Employment, July 2021; Structure of Earnings Survey (2018), Eurostat; U.S. Department of Commerce; www.gov.uk.; www.hr-brew.com; www.usa.gov/minimum-wage

High-Level Summary of the Workshop Feedback

Employer representatives	Employee representatives
1. Welcomed improvements but expressed concerns over the timing and speed at which the measures are being introduced 2. Noted that the impact of these measures would be highly sector-specific 3. Identified the increase to the National Minimum Wage as the most pressing concern for most firms	1. Emphasised the strength of the economy and the importance of 'sharing the rewards' 2. Identified the broader societal benefits of these changes, including the importance of ensuring that workers do not feel a need to report to work when unwell 3. Noted that employers were capable of absorbing these additional costs

[9] The following countries do not have a minimum wage and are therefore excluded from the EU's Structural Earnings Survey dataset: Austria, Denmark, Finland, Sweden, and Italy.
[10] Excludes Austria, Cyprus, Estonia, Finland and Italy.
[11] Excludes Austria, Cyprus, Czech Republic, Denmark, Finland, Italy, Sweden.
[12] The UK Low Pay Commission met its target of a National Living Wage worth 60% of median earnings in 2020 and is expected to meet its subsequent target of 66% of median earnings in 2024.

Sectoral Employment Orders in Ireland

Sector	Effective From	Wages (per hour)	Pension	Sick Pay
Construction	**18 September 2023**	New Entrant €15.64 Category A[13] Worker €20.86[14] Category B[15] Worker €19.35 Craftsperson[16] €21.49	Contributory ✓ Employer daily rate: €5.96 Employee daily rate: €3.97 Total contribution per worker: €9.93	Contributory ✓ Employer: €1.27 Employee €0.63
	4 August 2024	New Entrant €16.19 Category A Worker €21.59 Category B Worker €20.03 Craftsperson €22.24	Contributory ✓ Employer daily rate: €5.96 Employee daily rate: €3.97 Total contribution per worker: €9.93	Contributory ✓

Source: Construction Sector - Workplace Relations Commission, S.I. No. 207/2023 - Sectoral Employment Order (Construction Sector) 2023 (irishstatutebook.ie)

Employment Regulation Orders in Ireland

Sector	Effective From	Wages (per hour)[17]	Pension	Sick Pay
Childcare	**15 September 2022**	Practitioners €13.00 Lead Educators/Coordinators €14.00 Graduate Lead Educators/Coordinators €15.50 Deputy/Assistant Manager €15.70 Centre Manager €16.50 Graduate Centre Manager €17.25	✘	Statutory Sick Pay (5 days as of 1 January 2024)
Contract Cleaners	**1 April 2022**	Contract cleaner €11.90	✘	Contributory ✓ 0.5% of basic pay rate
	1 April 2024	Contract cleaner €12.30		
Security	**4 September 2023**	Security operative: €12.90	✘	Non-Contributory

Source: Early Learning and Childcare Sector - Workplace Relations Commission, Contract Cleaning - Workplace Relations Commission, Security Industry - Workplace Relations Commission

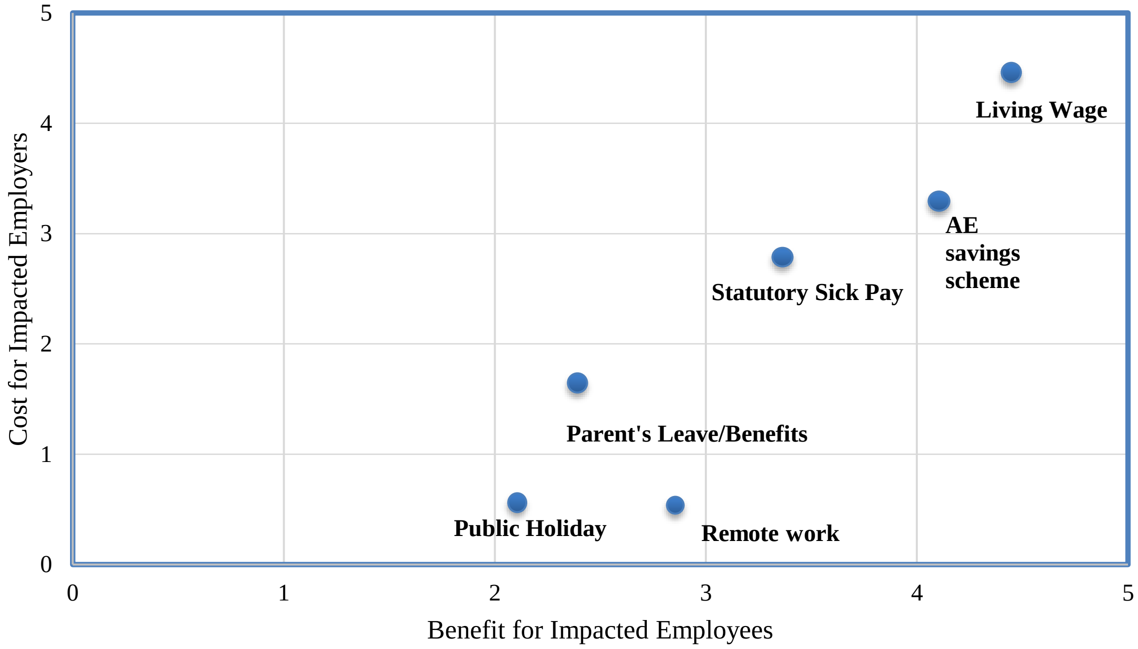
[13] Skilled General Operatives who have worked in the sector for 4 years and hold an Advanced Scaffolding Card, Banks operatives, Steel Fixers; Crane Drivers and Heavy Machine Operators are Category A Workers.
[14] Scaffolders who hold an Advanced Scaffolding Card and who have four years' experience; Banks operatives, Steel Fixers; Crane Drivers and Heavy Machine Operators.
[15] Skilled General Operatives-have worked in the sector for more than 2 years are classed as a Category B Worker.
[16] Bricklayers/Stone Layers; Carpenters and Joiners; Floor Layers; Glaziers; Painters; Plasterers; Stone Cutters; Wood Machinists; Slaters and Tilers.
[17] Wages for childcare and contract cleaners are based on those aged 20 years and above.

Heat map of the sectoral impact of improvements to working conditions

	Statutory Sick Pay	Public Holiday	Pension Auto-enrolment	Living Wage	Remote Work	Parents Leave/Benefit
Agriculture, Forestry, Fishing, Mining						
Manufacturing: *modern*						
Manufacturing: *other*						
Electricity, water supply and waste management						
Construction						
Wholesale and Retail						
Transport						
Accommodation and Food						
Information and Communications						
Financial and insurance activities						
Professional, scientific, and technical activities						
Administration and Services						
Public Administration						
Education						
Human health and social work activities						
Arts, entertainment and recreation						

Source: DETE own assessment. Note: High impact, medium impact, low impact. This assessment is intended to show, at a glance, the potential impact that these measures may have on individual sectors, at the broad sectoral level. While not captured here, it is important to note that in certain cases, there is also likely to be considerable heterogeneity on a within-sector basis (e.g. among firms involved in high-tech versus traditional manufacturing). The classification of each measure as having a high, medium or low impact should be understood in relative terms and is determined based on the evidence – both quantitative and qualitative – that is presented throughout this report. These are also subject to the caveat cited above with regard to SEOs/EROs.

Summary of the costs and benefits for impacted employers and employees



Source: DETE own assessment. Note: 0 meaning low costs/benefits and 5 meaning high costs/benefits

Estimated impact of Living Wage policy on cost of employing a worker (for *stylised* firms)

Living Wage	**Small Hospitality Firm**		**Mid-sized Retail Firm**			**Large ICT Firm**	**Construction Firm**	**Legal Services Firm**
	Firm 1a	**Firm 1b**	**Firm 2a**	**Firm 2b**	**Firm 2c**	**Firm 3**	**Firm 4**	**Firm 5**
Increase in 2024 (versus 2023 baseline)	12.39%	12.39%	9.81%	8.65%	8.65%	~ 0%	0%	~ 0%
minus estimated broader wage developments	*(7.88%)*	*(7.88%)*	*(6.52%)*	*(6.52%)*	*(6.52%)*			
LW policy-driven increase	4.51%	4.51%	3.29%	2.13%	2.13%	~ 0%	0%	~ 0%
Increase in 2026 (versus 2023 baseline)	32.75%	32.75%	27.10%	27.10%	23.10%	~ 0%	0%	~ 0%
minus estimated broader wage developments	*(17.26%)*	*(17.26%)*	*(15.80%)*	*(15.80%)*	*(15.80%)*			
LW policy-driven increase	15.49%	15.49%	11.30%	11.30%	7.30%	~ 0%	0%	~ 0%

Source: DETE own assessment. Notes: For Firms 1 and 2, all NMW (f/t only versus f/t + p/t) plus broader wage developments are modelled separately from Living Wage policy-induced developments. For Firm 3, assumes no change in wage costs as a result of Living Wage policy, reflecting high levels of remuneration in the firm with no staff earning at or near to the NMW. Firm 4 assumes no change in wage costs as a result of Living Wage policy, as conditions are set in line with a Sectoral Employment Order. Finally, Firm 5 assumes no change in wage costs as a result of Living Wage policy, reflecting high levels of remuneration in the firm with no staff earning at or near to the NMW.

Benefits of improvements to working conditions for employees before and after forthcoming changes

	Worker 1 (Hospitality, Full time)		Worker 2 (Retail, Part time (20 hours))		Worker 3 (ICT, Full time)		Worker 4 (Construction, Full time)		Worker 5 (Legal, Full time)	
	Before	**After**	**Before**	**After**	**Before**	**After**	**Before**	**After**	**Before**	**After**
Gross Earnings (annual)	€22,916	€25,755	€11,752	€13,208	€82,763	€82,763	€43,582	€45,508	€65,869	€65,869
Net Earnings (annual)	€22,652	€25,333	€11,488	€12,921	€76,969	€76,969	€42,516	€43,873	€59,283	€59,283
% change to net earnings		**11.8%**		**12.5%**		**0.0%**		**3.1%**		**0.0%**
Sick Pay Scheme	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓
Pension Coverage	✗	✓†	✗	✓†	✓	✓	✓	✓	✓	✓
Additional Public Holiday	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓
Right to Request Remote Work	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓
Parents Leave/Benefit	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓

Source: DETE based on stylised examples of workers

NOTE: Worker 1 and Worker 2 earnings based on NMW in 2023 (€11.30) and 2024 (€12.70). Worker 3 hourly earnings based on CSO average hourly earnings in the ICT sector in Q3 2023 (€40.81) and assumes pension annual contribution of 7%. Worker 4 earnings, sick pay and pension based on earnings set out in SEO. Worker 5 earnings based on CSO average hourly earnings in Professional, Scientific & Technical activities sector in Q3 2023 (€32.48) and assumes pension annual contribution of 10%. †**While a worker earning this amount could opt-in to the auto-enrolment scheme, it is unlikely that they would choose to do so.**

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1. Introduction

1.1 Background

The Irish labour market has experienced a remarkable recovery in the aftermath of the COVID-19 pandemic, with employment levels reaching a record high of 2.7 million in Q3 2023, or almost 300,000 higher than in Q4 2019. An important driver of this recent increase in employment has been the record levels of female labour market participation, with 1.25 million women in employment as of Q3 2023 – an increase of approximately 170,000 since the end of 2019. This is due to several factors, including the rising prevalence of remote working, which has potentially facilitated access to employment by offering greater choice in terms of time management, commuting, and childcare options. With the unemployment rate in Ireland also low, standing at 4.5% in January 2024, the Irish economy can be considered to be at "full employment".

Against this backdrop, the Government has introduced or progressed several initiatives relating to improvements to working conditions in Ireland, such as the right to request remote work, sick pay legislation (mandatory paid sick days), auto-enrolment retirement savings, Parent's Leave and Parent's Benefit, an additional Public Holiday and the transition to a Living Wage. At the same time, the Government has also provided very significant supports to Irish enterprises to cushion them against a series of shocks ranging from Brexit and COVID-19 to the recent surge in energy prices. In addition, the Government has also taken a series of steps to improve Ireland's Social Wage[18] which has helped to stem the erosion of real earnings and to limit the demand for further wage increases.

1.2 Economic backdrop

The Irish economy has remained strong in the face of recent headwinds. The economy has continued to grow over recent years, although the rate of growth has slowed (see Figure 1.1A below). The Central Bank of Ireland has recently noted that the economy has shifted to a slower growth path after a strong post-pandemic recovery whilst the European Commission are now forecasting that the Irish economy contracted by 1.9% over 2023, primarily as a result of a slowdown in pharmaceutical exports and contract manufacturing by the MNC sector. Consequently, GDP growth for 2024 has been revised downwards to 1.2% (from an earlier forecast of 3%). Labour market conditions remain strong, albeit that there has been a recent uptick (+1.6 p.p.). in youth unemployment to 12.1% (see Figures 1.2A and 1.2B below). However, this can sometimes be an early warning signal of future labour market difficulties, whether this be due to employers becoming less open to hiring unexperienced staff and/or the fact that *'young people are usually penalized more than their adult counterparts during economic crises due to the so-called "last-in-first-out" principle'* (Pastore, 2023). Put simply, unemployment among young people tends to rise disproportionately during economic downturns (Bell and Blanchflower, 2011).

Inflation has fallen back to 4.1% by January 2024 – this is half the rate it was in October 2022 – while interest rates have risen from 0.5% to 4.5% (see Figure 1.1B). As the cost of borrowing has increased, this is likely to

[18] The Social Wage is a measure of how much better off individuals are from social spending by government on welfare supports and services. Irish Congress of Trade Unions' report demonstrates the Social Wage for workers in Ireland is exceptionally low by EU standards. See: [The Social Wage May 2022.pdf (ictu.ie)]

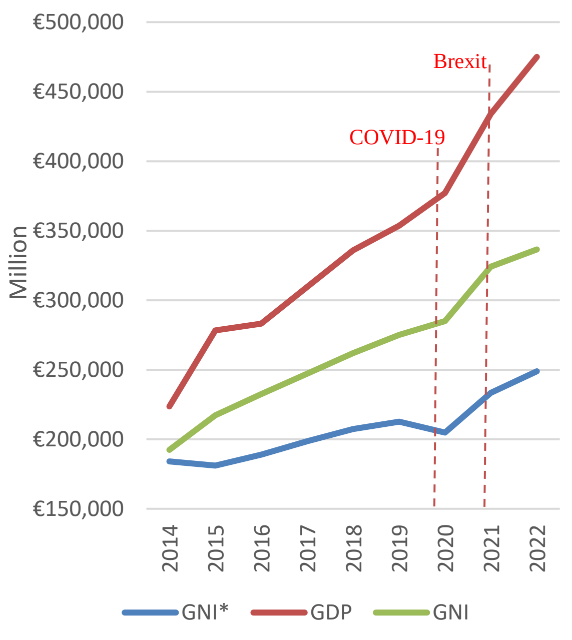
weigh on consumer outlook and disposable income over time. Consumer sentiment in Ireland remains robust but sentiment for sectors such as manufacturing, services and construction are now at, or below, 50 (as measured by the Purchasing Managers Index (PMI)). The latter result would suggest an expectation of a contraction in these sectors.

On foot of recent inflationary patterns, many enterprises have experienced – or, indeed, may continue to experience – acute non-payroll cost pressures across a range of inputs from energy to stock to packaging (to name just a few). Whilst recent data would indicate that inflation is on a downward trajectory, the rate of cost increases still remains high. In addition to the foregoing, many businesses are also presented with the high cost of domestically traded services (i.e., banking charges and legal fees) alongside the challenges posed by anti-social behaviour, outstanding debt, and persistent vacancy rates due to difficulties in terms of staff recruitment and retention. Businesses are also facing costs associated with managing the green and digital transitions. Furthermore, it is important to acknowledge that smaller employers, in particular, may have limited capacity to manage the cumulative impact of these multiple changes to employment conditions.

Energy and transport costs are two further concerns. In terms of the former, the international wholesale price for natural gas has fallen back significantly from the highs witnessed in 2022 and this has resulted in reduced costs to energy users here (including electricity consumers as price and supply is heavily dependent on gas-fired power installations). Notwithstanding the scale of the reduction in wholesale prices over the past 12-15 months, it is important to note that current prices for natural gas – at c. €27 p/MWh – are still about three times higher than the was the case in February 2020 (see Figure 1.4). Furthermore, some commercial customers will have entered into multi-annual fixed price contracts in 2023 which means they have will not yet have fully experienced any cost reduction.

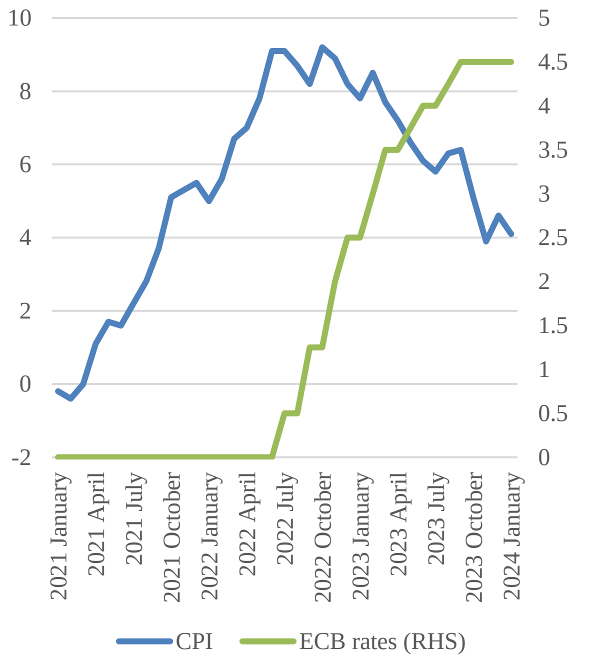
In the case of the latter, prices have also been quite volatile in recent times which has had knock-on cost implications for those businesses reliant on imported produce. Prices for containerized freight from South-East Asia have risen sharply since December following the re-routing of trade routes as a result of attacks on merchant ships in the Red Sea, although the Shanghai Containerized Freight Index (SCFI) remains far from the peak that the index reached in the first week of 2022 (see Figure 1.5B). Meanwhile, the Baltic Exchange's main sea freight index, Baltic Dry Index (BADI) has been falling recently following a spike in prices in late-2023.

Figure 1.1A Gross National Income (GNI), Gross Domestic Product (GDP) and Modified Gross National Income (GNI*), at constant market prices, between 2014 – 2022



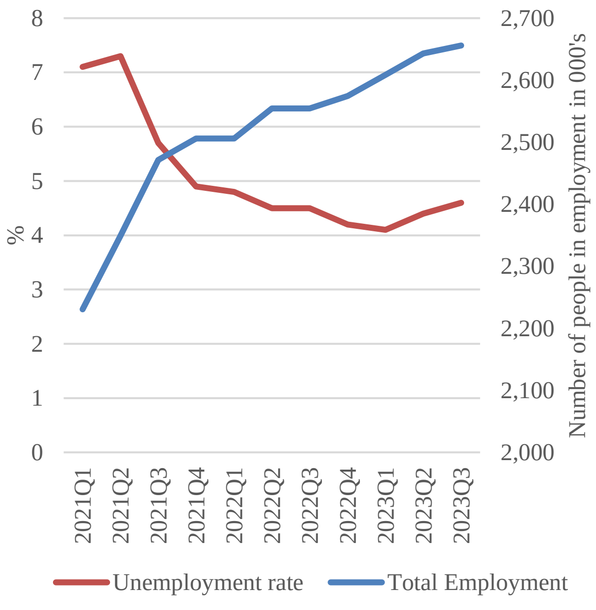
Source: CSO

Figure 1.1B Consumer Price Index (CPI) and European Central Bank (ECB) interest rates, %, 2021-2023



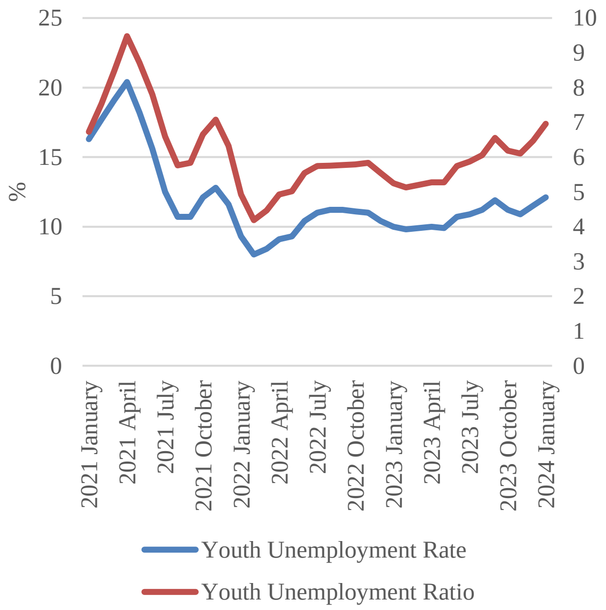
Source: CSO, European Central Bank

Figure 1.2A ILO Unemployment Rate and Total Employment, Q1 2021 and Q3 2023



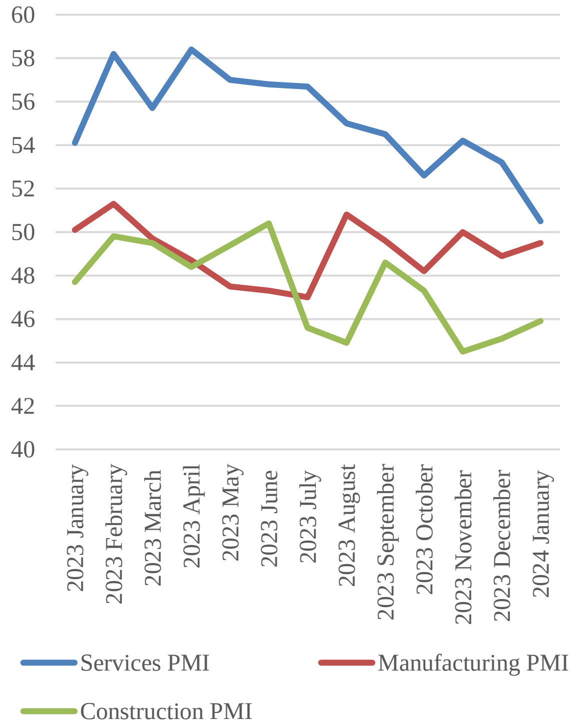
Source: CSO

Figure 1.2B Youth unemployment rate and ratio, January 2021 to January 2024



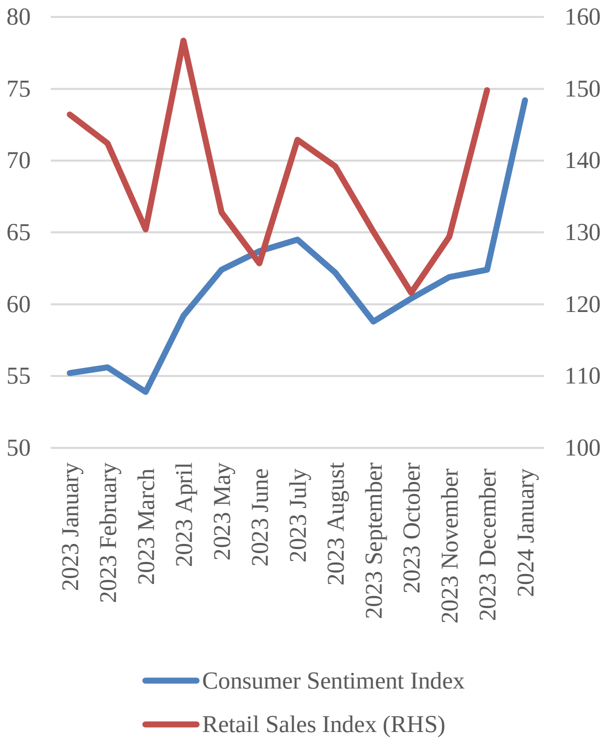
Source: CSO, Own calculations.

Figure 1.3A Purchasing Managers' Index (PMI) for Services, Manufacturing and Construction, January 2023 – January 2023



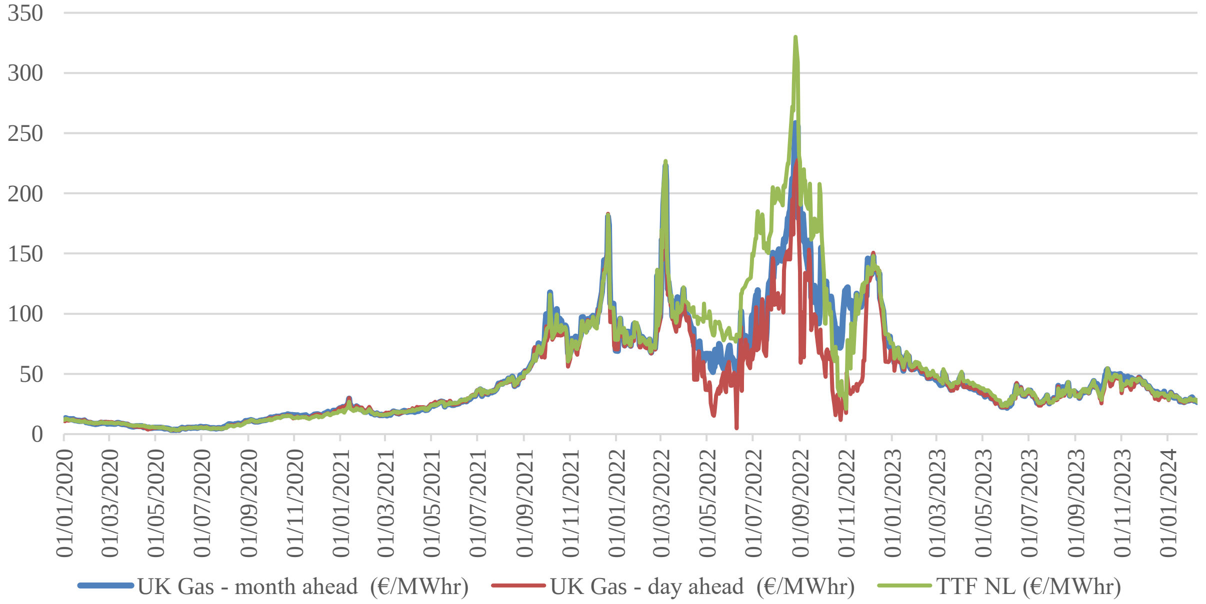
Source: Trading Economics

Figure 1.3B Consumer Sentiment Index and Retail Sales Index, January 2023 – January 2024.



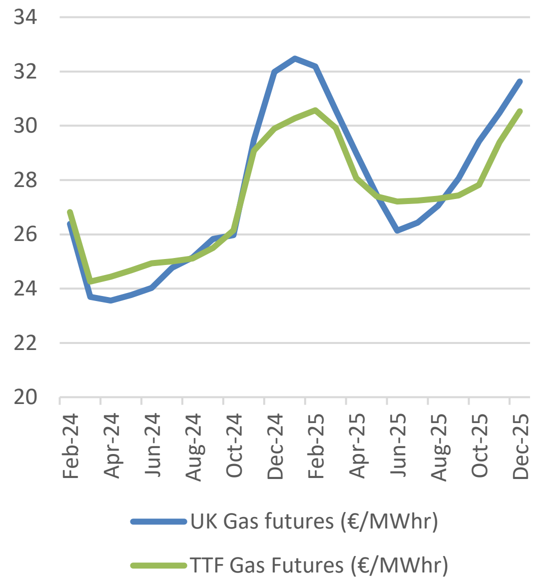
Source: Trading Economics, CSO. Note: Retail Sales Index is in terms of value and Base 2015=100.

Figure 1.4: UK and Dutch (TTF NL) Gas Prices, 2020 - 2024, €/MWhr



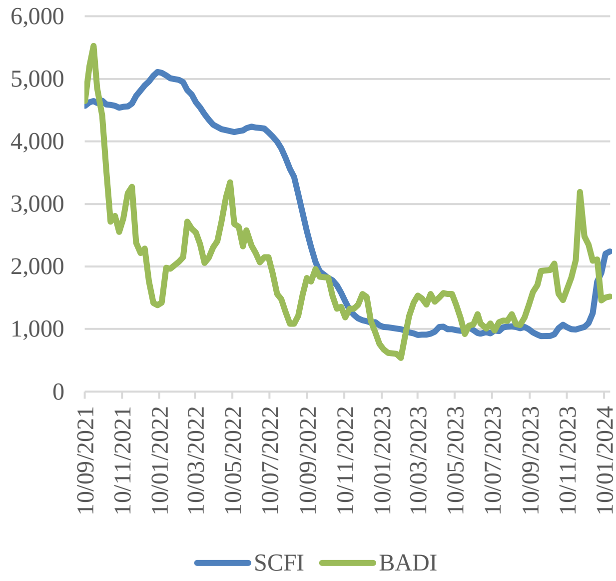
Source: Department of the Environment, Climate and Communications

Figure 1.5A: UK and Dutch (TTF NL) Gas Futures, February 2024 – December 2025



Source: Department of the Environment, Climate and Communications

Figure 1.5B: Shanghai Containerized Freight Index (SCFI) and Baltic Dry Index (BADI), 2021 – 2024



Source: investing.com, macrovar.com

In its Annual Report in 2022, *Ireland's Competitiveness Challenge (ICC 2022)*, the National Competitiveness and Productivity Council (NCPC) noted the need to take a holistic view of the impact of these newly introduced measures on Irish enterprises and recommended that a comprehensive assessment of the *'combined impact of the measures proposed to improve working conditions in Ireland, within a comparative EU framework, be undertaken'* (See Box 1.A for further detail). Following consideration by the Minister for Enterprise, Trade and Employment, the Government accepted this recommendation and Chapter 2 will provide further details in relation to the background to this report.

Box 1.A The National Competitiveness and Productivity Council's perspective on the proposed improvements to working conditions

In its *ICC 2022* report, the NCPC noted that improved working conditions are crucial for Ireland's competitiveness and productivity as they are vital for ensuring Ireland can attract and retain talent. There are also potential benefits to firms, particularly SMEs, as these measures have been linked to positive outcomes including reduced employee turnover, higher discretionary contributions by employees to enterprise capacities, improved profitability and higher levels of customer satisfaction and sales. The Council stated that these changes are crucial to improve working conditions and bring Ireland in line with other OECD countries.

The Council has also noted that in the period preceding the publication of the *ICC 2022* report, the Government had introduced or progressed several initiatives to improve working conditions. The Council noted its support of the extension of employment rights in the interests of a more inclusive economy and promoting quality employment, while also acknowledging that these measures do represent a cost to employers, for example through administrative burdens and resource costs, which could be particularly burdensome for SMEs.

In its 2023 *Ireland's Competitiveness Challenge* report, the Council reiterated this view, highlighting the economic and societal benefit which will be delivered from these measures. For example, the Living Wage can boost the economy and productivity and help with staff retention, while pension auto-enrolment will lead to an increase in disposable incomes for retirees over time, which will provide a benefit to the economy through increased spending. The Council believes that it is important that there is a comprehensive assessment of the impact of these measures on businesses, particularly given the context of inflation, Brexit, supply chain challenges, and the digital and green transitions, which have increased costs and administration burdens on firms.

The various improvements to working conditions have been signalled in advance and are to be implemented on an incremental basis over a number of years. The process commenced with the provision of additional Parent's Leave from mid-2022 followed by the phased introduction of Statutory Sick Pay from 2023. The opening steps in the move to a Living Wage began from early-2023, while the commencement of the proposed auto-enrolment (AE) retirement savings scheme was scheduled for the following year (to be rolled-out on a phased basis over ten years).

It is important to note, however, that the introduction of certain changes considered here will still be subject to a degree of conditionality. For instance, with respect to the Living Wage, the Low Pay Commission (LPC) can speed up or slow down the progression in response to any specific circumstances that have had a significant impact on economic conditions. In the case of Statutory Sick Pay, the further expansion of this change will proceed *'having regard to the state of the economy generally, the business environment and national competitiveness'*. The progression to a Living Wage, initially set at 60% of the median wage of all workers, was agreed by Government and follows on from the EU Directive on Adequate Minimum Wages. This Directive requires Member States to use indicative reference values to assess the adequacy of minimum wages and suggests the indicator of 60% of median wages as an appropriate benchmark.

It is also important to differentiate the impact of the transition to the Living Wage from that of the broader movement in wages across sectors over time. The latter is a function of rising wage expectations at a time of both rising consumer prices and rising interest rates. The assessment in this report is being published during a period of changing inflationary dynamics where most households will have felt the impact of rising prices. Over recent years, the National Minimum Wage (NMW) as a proportion of the median wage ('the bite') has fallen – from 56.6% in 2018 to 51.8% in 2023 – and to maintain real incomes for those on lower levels of pay, there would be an expectation of wage increases (even leaving aside any new policy intervention in pursuit of a Living Wage). In other words, it is unlikely that employers – whether large or small – would reasonably have assumed no change in payroll costs over the coming three years in the absence of the transition to a Living Wage. Indeed, the NMW has been increased each year from 2016 to 2023 (inclusive). It most likely would have continued to increase – even at a lower level of 'bite' relative to rising median wage levels – without the planned introduction of the Living Wage.

As part of Budget 2024, it was announced that a new system of Pay-Related Benefit (PRB) would also be introduced from December 2024, linking the rate of benefit to a person's previous earnings. In order to fund these new entitlements – and to protect the viability of the Social Insurance Fund – a new set of increases to both employer and employee social insurance contributions were confirmed. Consequently, alongside the increases to the NMW and the commencement of the Auto-Enrolment retirement savings scheme, employer contributions will increase by 0.1 percentage points (to 11.15%)[19] in 2024. In cumulative terms, PRSI contributions will increase by 0.7 percentage points between 2024 and 2028.

1.3 Context: Payroll and profitability

The various measures assessed here will inevitably impose additional costs on employers in certain sectors. We examine the potential impact of these measures on payroll costs for firms, noting that payroll costs account for a significantly greater proportion of overall operating costs in more labour-intensive sectors, such as hospitality, retail, and personal services.

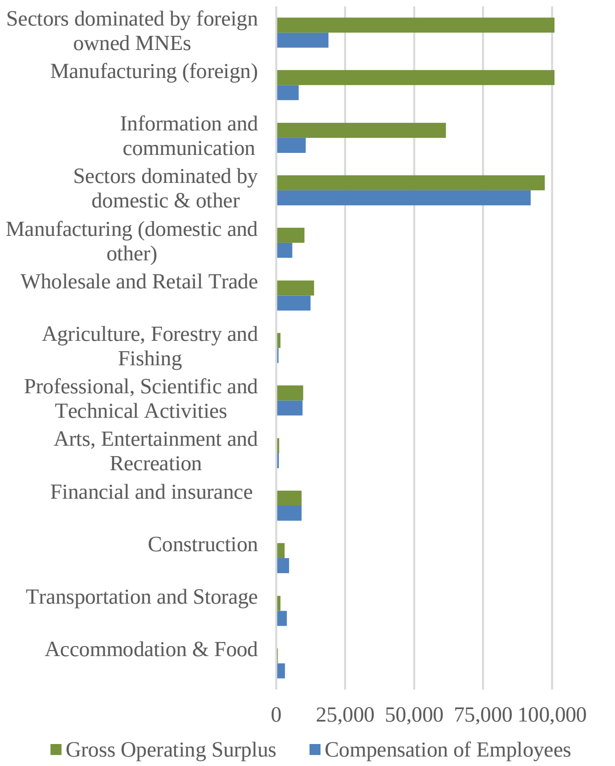
In Ireland, the sectors which are dominated by 'domestic and other[20]' firms – which are typically made up of small and medium-sized enterprises (SMEs) – employ a much larger proportion of people but pay relatively lower wages on average compared with the sectors dominated by foreign firms. According to the Central Statistics Office (CSO), 12.9% of employees were employed in the foreign-dominated sector in 2021, compared with 87.1% in the domestic and other sector. With respect to wages, average compensation per employee in the foreign-dominated sector was €61,200 in 2021, compared with €44,400 in the domestic and other sector.

While these sectors are jobs-rich, they generally have low profit margins, meaning that improvements to working conditions will have a greater impact on the profitability of businesses in these sectors. These sectors are those which are dominated by domestic and other enterprises, including the Accommodation and Food Service and

[19] With effect from October 2024, employer PRSI contributions (Class A) will stand at 10.15% plus 1% for the National Training Fund.
[20] The CSO splits the Irish economy into two sectors: 'Foreign' and 'Domestic and other'. Foreign-owned Multinational Enterprise (MNE) dominated sectors are sectors where MNE turnover on average exceeds 85% of the sector total. All other sectors are categorised as 'Domestic and other' sectors.

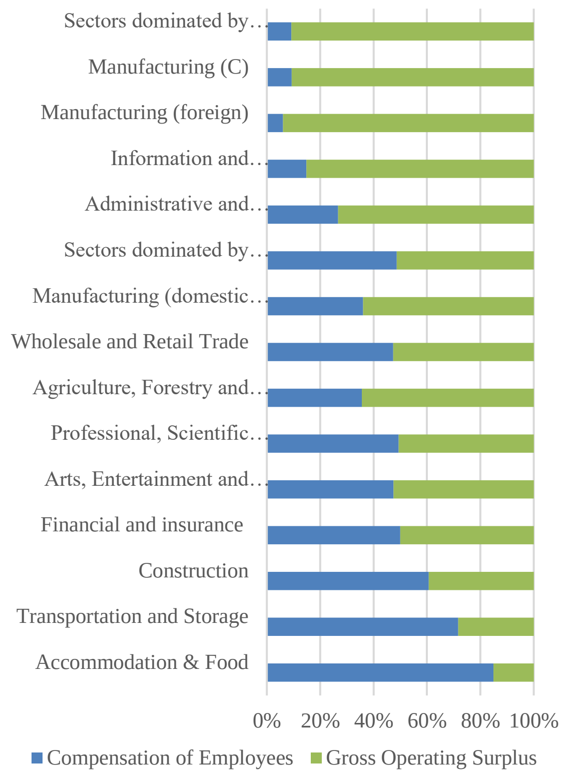
Transportation and Storage sectors, and generally these have lower profit margins than the sectors dominated by foreign-owned Multinational Enterprises (MNEs) – which include the manufacturing and the ICT sectors (see Figures 1.6A and 1.6B). Indeed, whilst sectors such as the Wholesale and Retail Trade sector do report a strong operating surplus (or profitability) at the aggregate level, it is important to bear in mind that such a sector is not a monolith. Rather, there will undoubtedly be a wide degree of variance between the large multiples versus small owner-operated shops. Similarly, it will be the case that larger hospitality operators – particularly, those in urban areas with high footfall and/or proximate to tourist destinations – will likely be more profitable than smaller establishments in other locations. The NCPC's *Ireland's Competitiveness Challenge 2023* (NCPC, 2023c) report also references firms operating in the Wholesale and Retail Trade sector and the Accommodation and Food Services sector as among those that will be most impacted by these changes. The latest available data from the Revenue on the Corporation Tax liabilities of non-MNC firms (i.e., SMEs) in 2021 indicates that 56% of companies had a nil or negative liability, while 91% had a liability of less than €20,000. In terms of a pre-COVID baseline, data on payments made in 2019 suggests that 92% of SMEs had a liability of less than €20,000 (Revenue Commissioners, 2023).[21] An important caveat here, however, is that these liability figures are calculated in accordance with Corporation Tax rules.[22]

Figure 1.6A Gross Operating Surplus (Profit) and Compensation of Employees (Wages) by selected sectors, 2022, €m



Source: CSO

Figure 1.6B Gross Operating Surplus (Profit) and Compensation of Employees (Wages) by selected sectors, 2022, %



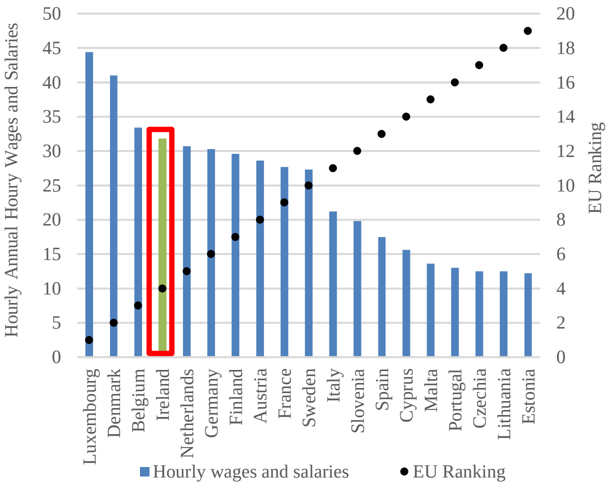
Source: CSO

[21] It should be noted that this data does not necessarily reflect current levels of profitability among non-multinational firms – the data reflects payments made in 2021 (and 2019), and in addition, companies can carry forward losses from previous trading periods to set against their current tax liability and may also avail of capital allowances.

[22] For tax purposes, capital allowances or carried forward losses may be deducted from gross profit to arrive at taxable profit, and certain tax credits or reliefs may be deducted from a gross tax liability to arrive at the net liability position.

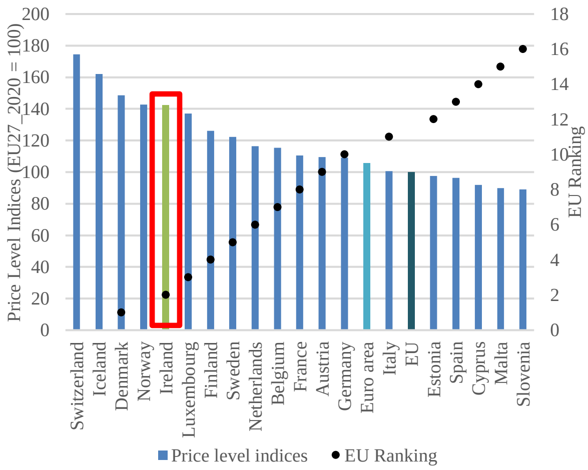
Ireland is both a high-wage **and** a high-cost economy. In 2022, Ireland's total hourly labour costs were €37.90, compared to the EU and euro area average of €30.50 and €34.30, respectively. This placed Ireland at 9th across the EU in 2022. In terms of ***hourly wage costs only***, Ireland ranks at 4th in the EU with wage costs here being above the EU, and euro area, average (see Figure 1.7A). Hourly non-wage costs, however, are lower than the EU average due to lower tax-related levies. At the same time, Ireland also ranks as one of the more expensive countries in Europe (see Figure 1.7B). Looking at Eurostat's Price Level Index (PLI), Ireland was the 2nd most expensive country in the EU in 2022. Notably, Ireland was the most expensive in the EU for alcoholic beverages and tobacco and fourth most expensive in the EU for food. Ireland, however, ranks amongst the least expensive EU countries in other categories such as clothing and footwear (20th). These issues are further discussed in Chapter 3.

Figure 1.7A Total economy annual average hourly wages and salaries, 2022



Source: Eurostat

Figure 1.7B Price Level Indices (PLIs) - Household Final Consumption Expenditure, 2022



Source: Eurostat

In a number of cases, the measures to be introduced are grounded in our collective learning from the pandemic-era. For instance, there was a concern at the time that many workers in low-pay sectors without occupational sick pay arrangements would have continued to report to work even when they were feeling unwell (in spite of public health guidance to the contrary). In other cases, measures such as the introduction of an AE retirement savings scheme were introduced to address the low share level of pension coverage among Ireland's private sector workers and to mitigate the large drop in living standards that could be experienced at retirement. This would go some way to mitigating the forecast deterioration in the working-age dependency ratio and would bring Ireland's labour market into line with standard practice in other advanced economies. Beyond this, a widespread array of consultations over a number of years was undertaken in advance of any Government decision on the introduction of various measures.

Box 1.B: Pathway of Ireland's transition to a Living Wage

The Low Pay Commission (or LPC) is an independent body and makes recommendations to the Minister for Enterprise, Trade and Employment designed to set a minimum wage that is fair and sustainable. The Government decided in 2022 that Ireland would transition to a Living Wage at 60% of median hourly wages by January 2026.

As a first step in the transition to a Living Wage, the LPC recommended an increase of €0.80 (to €10.50 per hour) from 1 January 2023. The most recent annual report was completed in July 2023 and published the following September. The LPC recommended an increase in the NMW of €1.40 cent (or 12%) to €12.70 per hour. This recommendation was considered and accepted by Government in the context of Budget 2024 and the increase will take effect from 1 January 2024. This increase is the second year of the proposed four-year path towards reaching the Living Wage. The LPC has discretion to speed-up, or slow-down, this transition. This change also follows on from the **EU Directive on Adequate Minimum Wages**.

The LPC recommended setting a fixed threshold at 60% of the 'median' wage, where the median is calculated as the median hourly wage of all employees. However, it should be noted that there is a variation in the median for all workers versus the median for full-time and part-time workers. In 2022, for example, the median earnings for all workers stood at €19.60 per hour. For full-time and part-time workers, the equivalent was €21.40 and €15.24, respectively (CSO, Structure of Earnings Survey 2022).

Ireland has heretofore had a flexible labour market and this has supported recovery during previous times of economic stress. There is the potential that the current approach will lock-in a set of rigidities to pay determination which will reduce that flexibility into the future. It is also well recognised that although Ireland does have high levels of inequality in terms of market wages, it also has a highly progressive tax and welfare system which is already very effective in correcting for, and mitigating against, these disparities.

See Chapter 7 (Part C) of this report for further details on the progression to a Living Wage.

Ahead of submitting its Living Wage report to Government in March 2022, the LPC commissioned an analysis from Maynooth University (NUIM) which included engagement with trade unions and employer representative groups. In the case of the auto-enrolment (AE) retirement savings system, a 'Strawman' proposal was published in August 2018. This outlined a possible approach to an AE system and provided the basis for a wide ranging national public consultation process on the operational structure and design of the system. A significant volume of submissions were received from a diverse range of stakeholders, including employer and employee representatives, industry bodies, advocacy groups and interested individuals. Among the notable amendments resulting from the consultation process, was the proposed phased roll-out of the AE scheme to mitigate administrative costs to businesses.

As part of our engagement, a variety of stakeholders were clear on the necessity of these changes, but expressed concerns that some of the measures could potentially have a significantly adverse impact on a range of Irish businesses – particularly those in sectors typically characterised by relatively low pay and low margins – and that there is a need to assess these impacts in a holistic manner (rather than simply looking at each measure in isolation). There are also concerns that these changes are being introduced against a backdrop of consistently high input cost inflation, ongoing supply chain disruption, global economic uncertainty, and the rising costs of borrowing. The foregoing are compounded by other factors such as the current levels of firm indebtedness and changing patterns of consumer behaviour (i.e., the ongoing transition towards on-line retail and reduced footfall in some locations due to hybrid working patterns). In addition, an increase in PRSI of 0.1% is scheduled to come into effect from October 2024. These factors are considered in Chapter 2.

The recent NCPC *Challenge* report in 2023 acknowledged the complexity of these measures for employers. Specifically, the report presented some of the preliminary findings arising from this paper noting the particular cost impact of measures such as the Living Wage and the AE retirement savings scheme on employers in sectors such as retail and hospitality. Such sectors typically have a higher preponderance of workers with earnings at, or close to, the NMW and will face higher payroll costs over time. Those firms that do not currently make retirement savings contributions and/or provide sick pay/leave to their staff will also face additional costs in doing so in the future.

Box 1.C: Living Wage in the United Kingdom

The UK is one of Ireland's most important trading partners. Ireland's exports to the UK encompass a wide array of goods and services, ranging from agri-food products to pharmaceuticals, making the UK a vital market for Irish businesses. Conversely, Ireland serves as an important destination for UK exports, particularly in sectors such as machinery, manufactured goods, and financial services. Since Brexit, there has been a renewed focus on our shared border with Northern Ireland and the scope for cross-border trade and working patterns.

Over the past few years, the UK has undergone significant changes in relation to its Living Wage. The introduction of the National Living Wage in April 2016 represented a substantial increase in the minimum wage for workers aged 25 and over. In November 2023, following recommendations by the UK's Low Pay Commission, the UK Government announced an increase in the minimum wage from £10.42 to £11.44 from 1st April 2024 – an increase of almost 10%. This will bring the UK's National Living Wage to approximately €13 per hour. In addition, the UK first introduced Statutory Sick Pay in 1983 and pension auto-enrolment has been introduced in stages commencing from 2012.

Consequently, it can be said that the suite of changes assessed here only bring the Irish economy into line with typical working conditions in Northern's Ireland's labour market.

Over the course of the analysis undertaken in this report, a key theme emerging from the authors' consultations with employers in sectors such as retail and hospitality, has been a degree of concern regarding the cost implications of the transition to the Living Wage. Specifically, these concerns centre on the scale of the scheduled increase of the NMW as part of the next step in this transition from 2024 (and the changes to follow). Between 2015 and 2023, the NMW has increased by a cumulative 31% (or an average of 3.4% *per annum*). From January

2024, the annual increase was 12.4%. Any change to the NMW is intended to set the floor for pay rates across the economy rather than mandate a broader range of pay increases for all workers. In practice, however, it may not be feasible for many employers to avoid an array of spillover effects which will impact payroll costs more broadly (i.e., also affecting those earning in excess of the NMW).

Whilst many of those consulted recognised that this change could have positive consequences in terms of staff morale as well as for staff recruitment and retention, there was still a concern with regard to the immediate impact on payroll costs, the anticipated knock-on impact for the cost of employing those currently earning more than the NMW, and the ability of a firm to either absorb these costs in the short-term or to maintain market share when passing on these costs to consumers. In addition, there is also a concern in terms of the likely capacity constraint for many SME's where owners/managers are confronted with the need to manage multiple new processes in parallel.

Where such measures assist in reducing staff turnover, this represents a direct saving to employers. It is also likely that some sectors, such as hospitality, will be net beneficiaries from the introduction of an additional public holiday. Furthermore, measures such as Statutory Sick Pay play a significant role in terms of the promotion of decent work and well-being, more generally. In other words, such measures can play an important role in ensuring that low-paid workers do not feel obliged to report for work when unwell simply in order to make ends meet. This has broader societal benefits in terms of public health, particularly where such employees work in care settings or sectors involving food preparation/handling.

The *White Paper on Enterprise* states that the Government '*will strive to ensure an attractive quality of life in all parts of Ireland with high productivity, well-paid jobs'*. The improvements to working conditions assessed in this report will play an important role in delivering on the ambitions outlined in the White Paper and will also serve to bring Ireland into line with other OECD and EU countries. Finally, these changes will make an important contribution to the delivery on a range of commitments set out in the *Roadmap for Social Inclusion, 2020-2025* and Ireland's commitments under the UN Sustainable Development Goals (SDG's). A fuller discussion of both costs and benefits associated with these new measures is provided in the Sections that follow.

In summary, there is a trade-off between improving working conditions, the benefits of which accrue to society and to individual workers, and insulating businesses from the additional costs of these measures which may also affect downstream costs for consumers.

1.3 Objectives, methodology and approach

This report aims to provide a deeper understanding of the impact of six distinct changes to working conditions in Ireland: the transition to a Living Wage, the AE retirement savings scheme, Statutory Sick Pay, the Additional Public Holiday, the Right to Request Remote Work, as well as Parent's Leave and Parent's Benefit. In considering the overall objective of this analysis, this paper considers the importance of providing a holistic view: the authors do not merely consider the cost to enterprises, but endeavour to present a balanced assessment of the combined impact of these measures regarding both costs and benefits. To this end, the analyses that follow are clear as to the likely benefits to Ireland's economy in terms of supporting staff recruitment and retention, boosting staff morale and productivity, and addressing issues pertaining to in-work poverty.

The following analysis was jointly undertaken by Irish Government Economic and Evaluation Service (IGEES) officials in the Department of Enterprise, Trade and Employment and the Department of Social Protection. The authors considered various additional costs and benefits in each case and provide detailed analysis on the impact of these measures on sectors and businesses. As each of the measures are quite distinct in their nature and in their potential impact, different methods were used throughout. This includes directly applying projected employer contributions based on estimates of the wage bill, in the case of the AE retirement savings scheme, as well as examining impacts on national income in the case of the additional public holiday. Furthermore, previous analysis by the OECD is used as the basis for deriving an economy-wide impact of moving to the Living Wage. It is emphasised that the policy-related costs associated with the transition to the Living Wage must be understood distinctly from the impact of more general wage inflation.

The quantitative exercises undertaken in this paper involve both the derivation of economy-wide impacts associated with the introduction of each measure, as well as the examination of firm-level impacts using stylised examples of firms from a cross-section of sectors. The authors acknowledge that in producing these estimates it was necessary to make certain assumptions. These assumptions are outlined within the respective Chapters for each measure. Whilst it is not plausible to present a single definitive answer which captures the experience of all firms (and across all sectors), this report does put forward a range of estimates for the combined costs. These take current staffing overheads as a starting point, but the authors recognise the possibility that some firms may respond to any cost increases by reducing staffing levels (or by reducing either opening hours or hours per employee). It is also assumed that each set of improvements to working conditions will be introduced as is generally understood at the time of writing.

Over the course of this study, the authors engaged with a variety of both employer and employee representatives. The analysis benefited from input from firms and stakeholders in the form of workshops and one-on-one case studies. In turn, these engagements with representatives informed a qualitative assessment. The feedback received as part of this qualitative workstream is presented in Part B, while a high-level summary of the key themes that emerged is provided below in Box 1.D.

Box 1.D: Summary of the Workshops

Employer representatives	Employee representatives
1. Welcomed improvements but expressed concerns over the timing and speed at which the measures are being introduced. 2. Noted that the impact of these measures would be highly sector-specific. 3. Identified the increase in the National Minimum Wage as the most pressing concern for most firms.	1. Emphasised the strength of the economy and the importance of '*sharing the rewards*'. 2. Identified the broader societal benefits of these changes, including the importance of ensuring that workers do not feel a need to report to work when unwell. 3. Noted that employers were capable of absorbing these additional costs.

The paper begins with Section A which sets out the background, rationale and international comparators for each of the measures and concludes with key findings and policy considerations. Section B sets out the stakeholder engagement undertaken in the form of case studies and workshops, and the associated findings. Finally, Section C contains an in-depth analysis of each of the specific measures.

2. Background and rationale

Key Messages:

- Over the last number of years, Government has provided extensive supports to Ireland's enterprise sector, to assist in navigating the challenges posed by Brexit, the COVID-19 pandemic, and the economic consequences of the invasion of Ukraine.

- The Low Pay Commission recommended setting a fixed threshold for the Living Wage at 60% of the 'median' wage with the latter to be calculated as the **national median hourly wage of all employees**. For the information of the reader, the authors' present here additional information on the median wage by sector and by hours worked.

- A legacy of the pandemic, some firms are facing a significant debt overhand, including tax debt owed to Revenue, as well as private bank borrowing supplier-provided credit lines and any outstanding rental payments under commercial leases. The data indicates that the sectors with the largest tax debt are wholesale and retail (€357.19m, or 21% of the total) and accommodation and food services (€264.96m, or 15% of the total).

- It is important to recognise that whilst these changes will impose additional operating overheads on a subset of Irish SMEs (and, likely, on their customers), there are also benefits associated with these changes. International evidence shows that countries perform better with policies and institutions which promote job quality, job quantity and greater inclusiveness rather than countries whereby the main focus is labour market flexibility.

- Given the underlying structural differences, these changes to working conditions are likely to have a significantly different impact across sectors. The most impacted, are those sectors that are relatively labour-intensive with firms operating on relatively low margins, for example, hospitality and retail.

2.1 Introduction

The COVID-19 pandemic disrupted labour markets globally and accelerated existing trends, for example, in respect of remote work. It also brought attention to the importance of promoting fairness in work and providing a safety net to those with precarious working arrangements. This resulted in Government bringing to the fore its intention to create better terms and conditions for workers as a legacy of the pandemic. In 2022, the introduction of five new rights for workers in Ireland was announced, including:

- An entitlement to statutory sick pay from employers.
- The introduction of a new public holiday to mark Imbolc/St. Brigid's Day.

- The introduction of a right to request remote working.
- Enhanced protection for workplace tips/gratuities.
- The introduction of a COVID-19 related lay-off payment (for those subsequently made redundant).

The first three of these measures are within scope of this analysis. In addition, three other measures will be addressed here: the proposed AE savings scheme, the expansion of Parent's Leave (and Benefit), and the transition to a Living Wage. In each case, these are reforms that have been flagged by Government prior to 2022. For instance, Parent's Leave (and Benefit) were originally introduced in 2019 and entitlements under both have subsequently been extended. The development of a new AE retirement savings system was set out in the *Roadmap for Pensions Reform, 2018-2023* whilst a commitment to progress towards a Living Wage was set out in the current *Programme for Government: Our Shared Future*, published in 2020. In 2021, the Low Pay Commission was asked to make recommendations on how best to achieve this commitment[23].

2.2 Programme for Government Commitments

These changes to working conditions have been outlined in successive statements of Government policy over the past decade. See Table 2.1 below for a summary.

Table 2.1. Relevant Commitments under Government Statements of Policy

Programme for National Recovery (2011–2016)	It aims to reverse the recent cut in the national minimum wage. The Commission on Taxation and Social Welfare will examine and make recommendations on the interaction between taxation and the welfare system to ensure that work is worthwhile. In particular, it will examine family and child income supports, and a means by which self-employed people can be insured against unemployment and sickness.
Programme for a Partnership Government (2016)	This relies on the annual recommendations of the Low Pay Commission on the level of adjustment each year. It aims to cut Employers' PRSI while working with the Oireachtas for low-income workers to mitigate the cost of minimum wage increases, in order to protect jobs. It also aims to tackle the problems caused by the increased casualisation of work that prevents workers from being able to save or have any job security. Additionally, it also hopes to strengthen the role of the Low Pay Commission in relation to the gender pay gap, in-work poverty and regulation on precarious work.

23 A public consultation was launched by the Department of Enterprise, Trade and Employment in June 2022, see: Public consultation on the phase in of the living wage - DETE (enterprise.gov.ie)

Our Shared Future (2020)	This programme considers increasing all classes of PRSI over time to replenish the Social Insurance Fund to help pay for measures and changes to be agreed including, *inter alia*, to the state pension system, improvements to short-term sick pay benefits, parental leave benefits, pay-related jobseekers benefit and treatment benefits (medical, dental, optical, hearing); and Progress to a Living Wage over the lifetime of the Government. It also contains the commitment to introduce auto-enrolment scheme. A key focus is to improve the wellbeing of the Irish people and society. As part of this, the Government committed to bringing forward proposals on a right to disconnect for better work-life balance in 2020. The Programme also commits the Government to facilitate and support remote working.

2.3 The role of the Social Wage

The Social Wage is a measure of how much better off individuals are from spending by Government on welfare supports and services. The State can play a key role in directly expanding the Social Wage by improving services to citizens and communities, reducing out-of-pocket expenses and reducing the cost of living (ICTU, 2022). Commentators have previously stated that Ireland has tended to underperform in this regard (Sweeney, 2023) but it is important to consider the progress that has been made in recent years. By reducing costs to individuals, an effective Social Wage can offset upward pressure on wages through increased state support for households via transfer payments and expanded public services. The social wage can take the form of public provision of childcare services, state provided illness benefit, or enhanced support during periods of unemployment (McCarthy, 2015). Importantly, the Social Wage cannot be considered in isolation as we must also take into account fundamental principles, such as the sustainability of the public finances, the burden of taxation and sustainability of the tax base, the continued need to ensure the competitiveness of businesses as employment creators, the relative impact of any measures both on a worker's income and an enterprise's pay bill, and the importance of ensuring the long-term cohesion and resilience of society.

The recent inflationary pressures experienced not just in Ireland, but also globally, have increased costs (and have had the potential to erode real wages). The Irish Government has taken steps to balance the need to reduce these pressures to households with the need to avoid a wage-price spiral which will only serve to embed inflation further into the economy. Recent Government initiatives which have expanded the Social Wage include the roll-out of enhanced childcare arrangements through the National Childcare Scheme along with the introduction of the Core Funding Scheme in alignment with Employment Regulation Orders for the childcare sector. The Core Funding Scheme (with a funding allocation of €546m across its first two years) has also facilitated providers in absorbing higher non- staff costs owing to inflation while agreeing to a fee freeze for parents (Department of Children, Equality, Disability, Integration and Youth, 2022). Other areas where progress has been made on the Social Wage include reduced public transport fares (Department of Transport, 2022), free schoolbooks in primary schools and the recent extension of the scheme to secondary schools, extended school hot meals scheme, household energy credits[24], reduced third-level student fees, and the expansion of free GP visit cards (Department of Health, 2023). There has also been provision of subsidies for certain measures, for example, Parent's Benefit and tax relief for working from home. The measures included in this assessment, such as the move to a Living Wage and the retirement savings scheme, are also important elements of the Social Wage.

Finally, Ibec have previously stated that: '*while many of these additions to the so-called Social Wage have merit on their own terms, it is crucial that the Government intensifies work through the Labour Employer Economic Forum (LEEF) to ensure better co-ordination of tax, social welfare and other Social Wage policies that can address these inflationary pressures'* (Ibec, 2022).

2.4 COVID-19 pandemic and lessons learned

The COVID-19 pandemic prompted a permanent shift in the way people perceive work and has accelerated several underlying trends in the labour market. These new ways of working have now become the norm across many sectors, both in Ireland and abroad. There were also some important learnings to be taken from Ireland's experience of the pandemic – for instance, the consequence of the absence of Statutory Sick Pay arrangements. Those workers whose terms and conditions of employment do not provide for sick pay can be reluctant to miss work due to illness. This led to the need to introduce the COVID-19 Enhanced Illness Benefit for workers and the self-employed to minimise any disincentive that they might have against compliance with public health advice (i.e., self-isolation).

There is a need for change post-pandemic, reflecting the long-term transitions which were already underway, including digitisation, the adoption of new ways of working and the rise of on-line commerce. Evidence has found that remote working is likely to have a positive impact on the Irish economy and society, including on labour market participation, workplace flexibility, employees' productivity, and on wellbeing, financial security and social inclusion (Williamson, 2022). However, we must also be aware of the heterogeneous impact across sectors. Factors such as social interaction with colleagues and how these are reflected for certain sectors and roles, are important considerations (Lal, Dwivedi and Haag, 2021). Certain jobs have characteristics which make working from home infeasible, specifically customer-facing roles (Crowley and Doran, 2020).

The changing labour market conditions since COVID-19 have also meant that employee expectations have risen, with regards to remote and flexible ways of working. The National University of Ireland, Galway (NUIG) and Western Development Commission (WDC) published a survey on remote working in May 2022 and found that 88% strongly agree or agree with the statement that their organisation needs to offer remote/hybrid working to attract staff, while 90% strongly agree or agree that these arrangements are required for staff retention (Western Development Commission, 2022).

[24] €600 energy credits in Budget 2023 and €450 energy credits in Budget 2024.

In terms of moves to embed the delivery of improved terms and conditions for all workers post COVID-19, the Irish Government referred to the importance of a "pandemic dividend" (Irish Times, 2021) which would deliver a more inclusive and secure economy for employees. This specifically referenced measures such as statutory sick pay, occupational pension coverage for all, flexible working and the move towards a Living Wage.

2.5 State supports for Ireland's enterprise sector

For many employers, the introduction of this suite of improvements to working conditions will impose additional costs (notwithstanding the potential benefits outlined above). It is, however, instructive to bear in mind the role of the State, and Irish taxpayers, in supporting Ireland's enterprise sector over recent years. The State provides supports to employers to help with medium- and longer-term challenges, such as the ongoing green and digital transition, for example through the National Training Fund and the Local Enterprise Offices (LEOs). The State has also played a key role in providing supports to enterprise to help weather the more immediate impacts of recent challenges. Over recent years, the Irish Exchequer has provided extensive supports to cushion employers – and by extension, their employees – from a series of shocks, including Brexit, the COVID-19 pandemic, and the economic consequences of Russia's invasion of Ukraine. These supports are further detailed below.

Brexit and COVID-19 related supports

The total amount provided by the State in supports for Brexit preparation amounted to €333.2m (Figure 2.1A). In the case of COVID-19, the total cost of supports amounted to €19.4bn (Figure 2.1B). The latter included almost €8bn in wage subsidies (i.e., T/EWSS) plus additional funding under an array of grants (i.e., SBASC, CRSS, Restart and Restart Plus, etc.).

Figure 2.1A Amount Provided by Government for Brexit Schemes

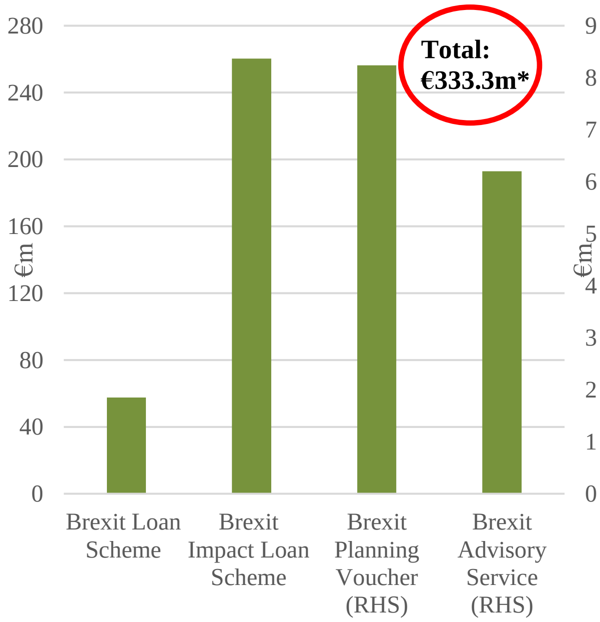
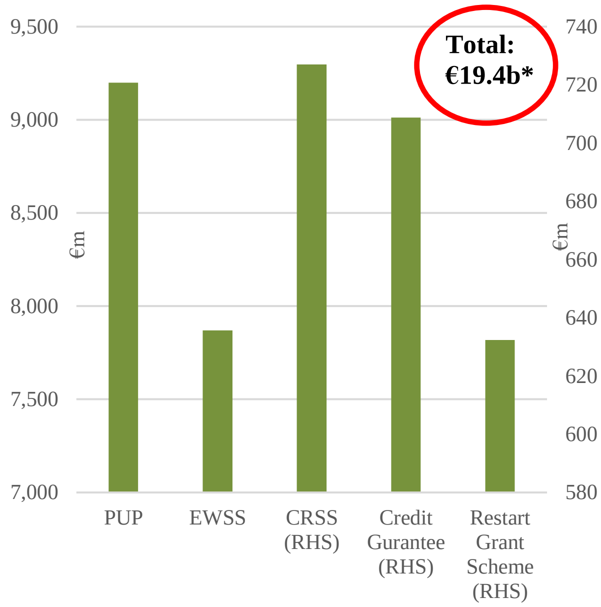


Figure 2.1B Amount Provided by Government for COVID-19 Schemes



Source: Department of Enterprise, Trade and Employment, Revenue.
Note: * Total provided for COVID-19 schemes includes: Life Sciences Products Scheme (€25.43m), Business Financial Planning Grant (€6.20m), COVID-19 Loan Scheme (€27.39m), MFI COVID-19 Loan Phase 1 and 2 (€26.4m), Small Business Assistance Scheme Phase 1 and 2 (€9.2m) and the Working Capital Loan Scheme (€118.5m). Total provided for Brexit schemes includes Brexit Business Loan (RHS) (€0.026m).

In addition, tax debt warehousing was announced by Government in May 2020 to provide a vital liquidity support to businesses suffering a downturn due to the COVID-19 pandemic. The extension to the scheme was announced in October 2022 which means that businesses have until 1 May 2024 to make arrangements to repay their warehoused debt. As of 26 January 2024, €1.7 billion of tax debt was warehoused, down from €2.7 billion in August 2022. The sectors with the largest tax debt are wholesale and retail (€357.19m, or 21% of total) and accommodation and food services (€264.96m, or 15% of total).

Measures to offset inflationary pressures

The Government also implemented several measures to help ease the impact on enterprises of rising inflation, mainly driven by energy price increases. The main programme introduced by Government to alleviate cost pressures was the Temporary Business Energy Support Scheme (TBESS). The Government has also implemented a scheme to assist businesses impacted by significant increases in the cost of kerosene heating oil, utilising unspent TBESS funds, which was launched in September 2023. Budget 2024 included a number of measures aimed at supporting businesses including a once-off €257 million Increased Cost of Business grant scheme (Department of Enterprise, Trade and Employment, 2023)**.** This is a targeted refund to businesses who are commercial rates payers and will be paid through local authorities.[25] A more detailed overview of measures introduced as part of Budget 2024 to assist the Irish enterprise sector is presented in Annex A.

2.6 Considering firm viability

The NCPC's *Ireland's Competitiveness Challenge 2023* report noted the risk presented by a debt overhang for the enterprise sector and stated that this would not only affect firm viability but could also have a range of consequences impacting on the competitiveness of Irish firms and affect their ability to deal with other business costs (NCPC, 2023). After recent economic developments, it is clear that some SMEs do face such an overhang. This will include not just the aforementioned tax debt but also private bank borrowing, supplier-provided credit lines and any outstanding rental payments under commercial leases.

In terms of tax warehousing, for instance, as of 26 January 2024, there was €1.7bn in warehoused tax debt owed to Revenue from 57,435 companies, of which almost 70% is accounted for of amounts less than €5,000 (see Table 2.3). The bulk of the debt (€1.3 billion) is warehoused by 3,067 customers, who have outstanding balances greater than €100,000. The overall warehoused debt has decreased substantially since January 2022 when almost €3 billion was warehoused for over 100,000 customers.

Table 2.3 Outstanding Warehoused Tax Debt by Debt Band

Debt Band	Firms	Value of Debt €m
Band 1: Less than 5 K	39,658	28.97
Band 2: 5K to 100K	14,710	377.22
Band 3: 100K to 500K	2,500	520.20
Band 4: Greater than 500K	567	794.15
Grand Total	**57,435**	**1,720.54**

Source: Revenue

[25] The detailed terms and conditions attached to the grant are to be finalised at the time of writing.

With respect to smaller firms, there are 6,745 firms with between 10 and 49 employees which have a total warehoused debt of €509m (or a median of €546 per firm). A further 23,141 firms with between 1 and 9 employees which have a total warehoused debt of €345m. For the latter, this equated to a median debt of €764 with close to 9,000 small firms owing less than €100 (see Table 2.4). Firms with more than 50 employees have a median level of debt per firm of €88,707. The sectors with the largest tax debt are wholesale and retail (€357.19 or 21% of total) and accommodation and food services (€264.96m or 15% of total) (see Table 2.4). See Annex B for more detail on tax debt warehousing.

Table 2.4 Total and Median Warehoused tax debt by firm size

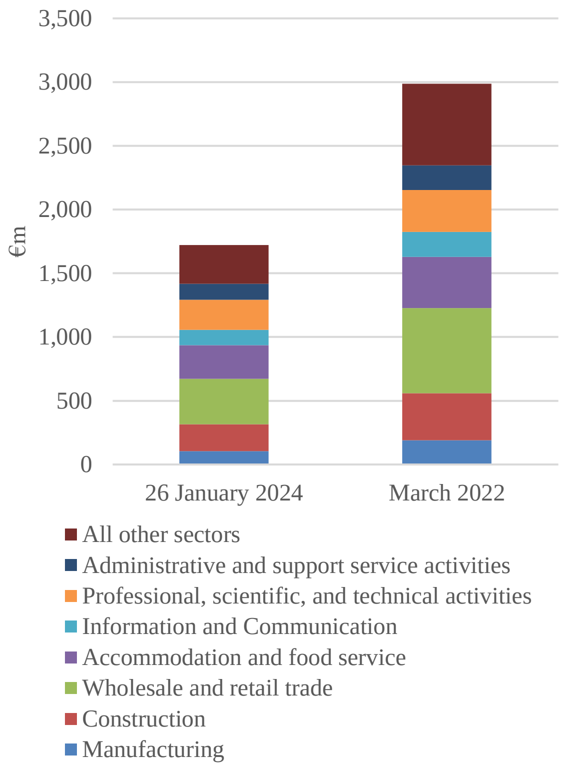
Number of employees	No employees [26]	1 to 9	10 to 49	50 +	Total
Number of firms	26,402	23,141	6,745	1147	**57,435**
Total debt	**€337.62m**	**€344.50m**	**€508.49m**	**€529.93m**	**€1,720.5m**
Median debt per firm	**€546**	**€764**	**€6,806**	**€88,707**	**€802**
Number of firms with debt <=€100	9,785	8,931	2,089	303	**21,108**

Source: Revenue, DETE calculations

In addition, the outstanding stock of SME credit on banks' balance sheets stood at €18.2 billion at the end of Q3 2023, down from €18.8 billion at the end of Q3 2022 (see Figure 2.6).

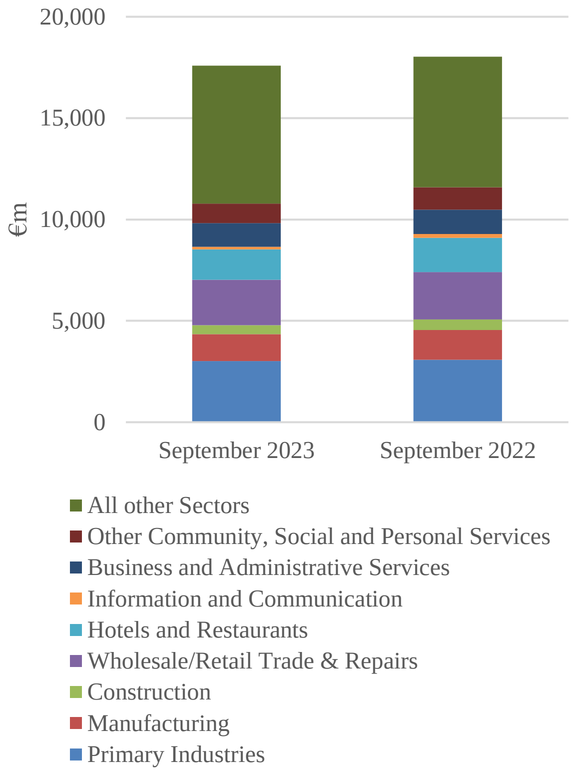
[26] 'No employees' includes self-employed.

Figure 2.5 Outstanding warehoused tax debt, €m



Source: Revenue. Note: 'All other sectors' includes Financial and Insurance Activities, Real estate activities, Education, Human health and Social Work activities, Arts, entertainment and recreation, Transportation and Storage, and Agriculture, forestry, and fishing.

Figure 2.6 Outstanding SME bank lending, €m

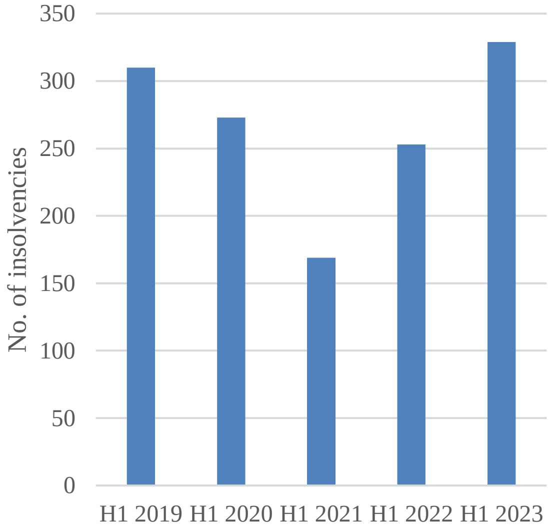


Source: Central Bank of Ireland. Note: 'All other sectors' includes Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities, Transportation and Storage, Financial Intermediation (Excl. Monetary Financial Institutions), and Real Estate Activities. Real Estate Activities makes up 82% and 83% of 'All other sectors' in 2023 and 2022.

With respect to rental payments, a Code of Conduct for Tenants and Landlords was introduced in 2020. This stated that *"Tenants who are in a position to pay in full should do so. Tenants who are unable to meet their financial and or contractual commitments should seek agreement with their landlord to pay what they can considering the principles of this Code"* (Department of Enterprise, Trade and Employment, 2020). Recent Court decisions mean that tenants are liable to pay rent even where commercial premises were closed for a time as a result of COVID-19 restrictions (Mason Hayes Curran, 2023).

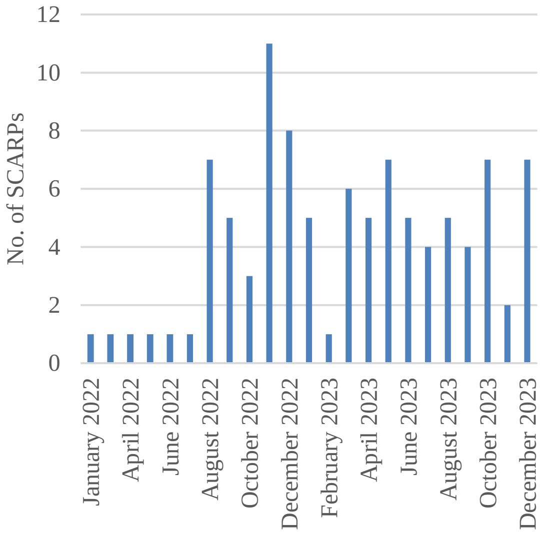
It has been suggested that there are a number of potentially unviable – sometimes referred to as 'zombie' – firms which have been enabled to continue trading on foot of State supports to the economy over recent crises. Indeed, a number of commentators have acknowledged this, with some highlighting that business closures are up in 2023 (in comparison to 2022) (Irish Times, 2023; CRIFVision-Net, 2023). According to Deloitte, the number of corporate insolvencies were up 30% in the first half of 2023 compared to the same period in 2022. These were also above their pre-pandemic levels in H1 2019 (see Figure 2.7A). Others have reported similar findings (CRIFVision-Net, 2023). Analysis by PwC indicates that, while there has been an increase in insolvency levels, annual business failure rates in 2023 remain lower than pre-pandemic levels. PwC report that the business failure rate in 2023 reached 27 per 10,000 companies compared to 36 per 10,000 in 2019 – but is still well below the peak of 109 per 10,000 businesses in 2012. According to PwC, the UK insolvency rate is still 1.9 times higher than in Ireland. However, there is evidence of a time lag between economic shocks and their impact on business closures in developed economies, and thus a return to pre-pandemic insolvency levels is inevitable.

Figure 2.7A Number of corporate liquidations received, H1 2019-H1 2023



Source: Deloitte Corporate Insolvency Statistics

Figure 2.7B Number of SCARP cases, January 2022 – December 2023



Source: Companies Registrations Office

Data provided by the Department of Enterprise, Trade and Employment indicates that the number of collective redundancy notifications received stood at 172 in 2023. This is 50% higher than for 2022. The number of potential redundancies advised increased by 60% to 11,544 in 2023 (from 7,173 in 2022).[27]

Some commentators have pointed out that the issue of rising insolvencies is particularly acute for businesses in sectors worst hit by COVID-19 – such as tourism and hospitality, live events and retail – but problems are also emerging for manufacturers (Irish Time, 2022). According to PwC, the retail sector had the highest number of business failures in 2023 with 144, an increase of 50% from 2022 (PwC, 2024). Hospitality was the next highest with 127 business failures in 2023, up 53% from 2022. With 97 business failures, construction was the third most impacted sector in 2023. PWC highlight that, together, retail, hospitality and construction alone made up over half (51%) of all insolvencies in 2023.

The Government launched its Small Company Administrative Rescue Process, or SCARP, scheme in December 2022 to help small companies that are in a precarious position regarding debts due as a result of the COVID-19 pandemic or suffering from any sudden shock affecting the viability of the company. SCARP is cheaper and less onerous than the Examinership route, which allows the company to continue trading through difficult times, and to avoid liquidation. The number of SCARP cases has increased in 2023 in comparison to 2022 (58 and 40

[27] It is important to note that information on collective redundancy notifications does not reflect the total number of actual redundancies that take place across the workforce. Other redundancies outside of these parameters are not required to be notified to the Minister. Also, not all proposed redundancies result in actual redundancies, as employers may negotiate with their workforce to restructure the business and find alternative solutions during the 30-day consultation period.

respectively (see Figure 2.7B). As a consequence, the number of insolvencies are lower than would have otherwise been the case.

2.7 An overview of the benefits associated with improving working conditions in Ireland

At the outset, it is important to recognise that whilst these changes will impose additional operating overheads on a subset of Irish SMEs (and, likely, on their customers), there are also benefits associated with these changes. International evidence shows that countries perform better with policies and institutions which promote job quality, job quantity and greater inclusiveness rather than countries whereby the main focus is labour market flexibility (OECD, 2019). The rationale for these measures is grounded in the benefits associated with these changes over time. These benefits are summarised here with further details provided in Chapters 7 through 12.

Recruitment, retention, and supply of labour

Measures enhancing working conditions can help to attract and retain talent in Ireland. Good conditions at work not only improve individual well-being but can also improve employee's motivation and productivity levels (Bosch and Weinkopf, 2017) by strengthening the commitment of workers to their firm, reducing excessive worker turnover, promoting the use of skills in the workplace and strengthening the incentives of firms and workers to invest in training and skill acquisition (OECD, 2019). Ireland has a flexible labour market meaning that it can adjust to shocks quickly. However, there are some cohorts in the labour market which face considerable barriers to entering or staying in work. The implementation of the working conditions measures examined in this analysis may well assist with increasing the labour supply by improving activation rates for these cohorts and thereby also easing upward wage pressures.

For example, in 2021 the OECD recommended that the Irish Government introduce sick pay legislation as a means of promoting the retention of workers with disabilities in the labour market (OECD, 2021). Additionally, extended Parental Leave may increase women's labour market participation as more parents can choose to stay at home and look after their children in their first year, thereby encouraging a less gendered concept of childcare with responsibilities being shared more equally (European Institute for Gender Equality, 2019). Evidence suggests that the gender wage gap for the low paid may be effectively reduced by a National Minimum Wage (Doorley, 2018). Creating a conducive legislative environment for remote working also can ensure employers based in Ireland are able to remain internationally competitive in terms of the attraction and retention of global talent. This could also have a positive impact with regards to cost savings for employers through reduced hiring costs (improved staff retention, satisfaction, and a larger labour force to choose from).

Productivity and competitiveness

Competitiveness and productivity are complementary concepts and an increase in the latter will lead to an increase in the former (Dresch, Collatto and Lacerda, 2018). For specific enterprises (for example, locally traded sectors), the proposed measures may impact upon their cost base, but it is less clear that these measures would impact upon competitiveness where all enterprises are implementing the same changes. Remote working may see firms potentially benefitting from reduced hiring costs, and reduced costs associated with maintaining and using office space. However, this would vary across sectors and occupations given that many are not amenable to remote working, particularly in industry, construction and certain employees in retail and hospitality. Remote working could also bring economic benefits to regional areas from increased footfall in these locations, thereby encouraging broad-based productivity growth from a regional perspective.

Social inclusion and equity

Under the framework of the United Nations' 2030 Agenda for Sustainable Development, Ireland adopted a whole-of-Government approach to the 17 Sustainable Development Goals (SDGs) (Department of Environment, Climate and Communications, (2022). The commitments set out in Ireland's *Roadmap for Social Inclusion, 2020-2025* reflect both the Department of Enterprise, Trade and Employment, and the Department of Social Protection's leading role in achieving some of the targets under "*Goal 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*". It is worth mentioning that through the implementation of "*Pathways to Work Strategy 2021-2025*", the Department of Social Protection's strategy aligns with SDG target 8.b (*By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization*); while, through the work of the WRC, Department of Enterprise, Trade and Employment strategy aligns with SDG target 8.8 (*Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment*).

Additionally, when considering goal 8 of the SDGs, which refers to *promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*, it is pertinent to consider vulnerabilities among youth, touching on issues of unemployment, early school leaving and labour market discouragement (International Labour Organisation, 2015). The NEET[28] rate adds those aged 15-24 who are both not employed and not in education (i.e., unemployed non-students) to those not economically active and not in education (i.e. inactive non-students). It therefore incorporates youth who are both engaged and disengaged in/from employment and/or education or training. Ireland's NEET rate has been on a downward trend – except for the COVID-19 period – and was 6.8% in 2022, below the EU average (9.6%), but above that of Sweden (4.9%) and the Netherlands (2.8%).

The proposed changes to working conditions examined in this analysis will make an important contribution to the delivery on a range of commitments set out in Ireland's *Roadmap for Social Inclusion, 2020-2025*. As outlined in the Roadmap: "*Social Inclusion is achieved when people have access to sufficient income, resources and services to enable them to play an active part in their communities and participate in activities that are considered the norm for people in society generally*." Following a mid-term review of the strategy published in June 2023, there are 81 commitments in total.

In addition, these changes correlate with the OECD's work on inclusive growth and the EU's European Pillar of Social Rights. The OECD describes inclusive growth as "*economic growth that is distributed fairly across society and creates opportunities for all*". According to the OECD, people would feel more motivated and involved if the benefits of economic growth were not allowed to flow into the pockets of a rich minority, and one of the ways of

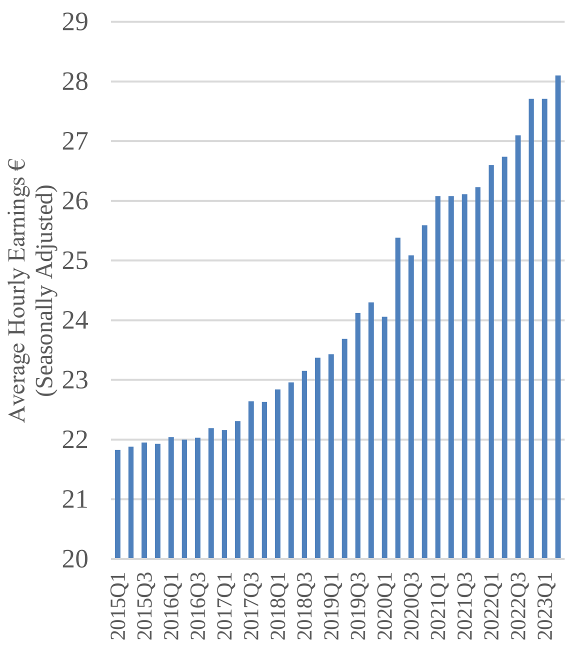
[28] NEET stands for a person who is not in education, employment or training.

doing this is "*ensuring people are able to earn the wages they need to thrive*[29]". The EU's European Pillar of Social Rights is aimed at making Europe fairer and more inclusive for everyone, by ensuring that everyone in Europe has the same chances in life – from fair wages and benefits to childcare and pensions. The Pillar has 20 principles, which have been agreed by all 27 EU member states, including Ireland. These principles include the right to equal opportunities, secure and adaptable employment, fair wages that provide for a decent standard of living, information about employment conditions, social dialogue and involvement of workers and the right to suitable leave, flexible working arrangements and access to care services.

2.8 Sectoral Considerations

Given the underlying structural differences, these changes to working conditions are likely to have a significantly different impact across sectors[30]. Average hourly earnings in the Irish economy rose from €21.83 in Q1 2015 to €28.1 in Q2 2023 (see Figure 2.8A). The variation by sector is shown in Figure 2.8B. The ICT, Financial, Insurance and Real Estate, and Professional, Scientific and Technical Activities sectors have the highest average (or mean) hourly earnings at €40.97, €38.55 and €31.96, respectively. In comparison, the Accommodation and Food, Arts and Entertainment, and the Wholesale and Retail sub-sectors have the lowest average hourly earnings at €15.89, €21.04 and €22.05, respectively. As a percentage of the average for all sectors, this corresponds to 57%, 75%, and 79%, respectively.

Figure 2.8A Average Hourly Earnings, Total Economy



Source: CSO

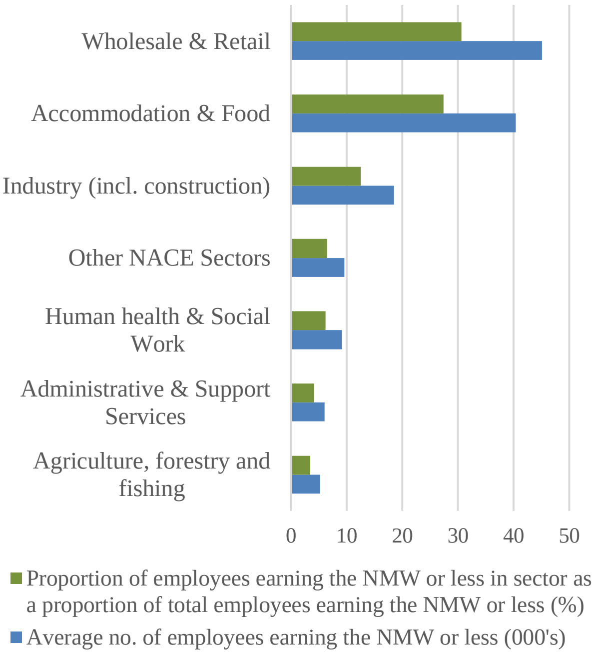
Figure 2.8B Average hourly earnings by sector, Q2 2023

Source: CSO

[29] See more information here: [Inclusive Growth - Economic growth that is distributed fairly across society (oecd.org)]
[30] See also Figure 8.2.1 in Chapter 8 for sectoral analysis of pension auto-enrolment.

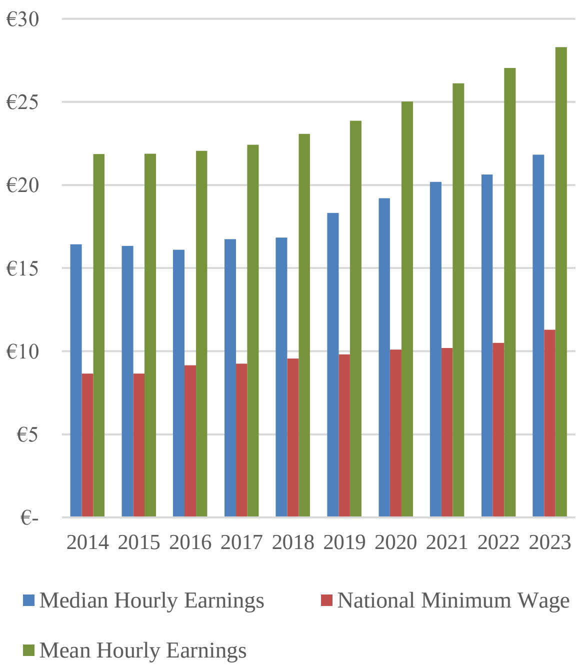
The two sectors with the greatest number and proportion of the NMW employees are the Accommodation and Food and the Wholesale and Retail sectors. In 2022, they accounted for 58% of all employees earning the NMW or less (see Figure 2.9A).[31] The NMW in Ireland has increased from €8.65 in 2014 to €11.30 in 2023.[32] When considering the NMW as a percentage of the median wage (the "bite"), Figure 2.9B shows that it has declined in recent years. Following on from recommendations from the LPC, the Government has decided that the National Living Wage (NLW) will reach a target of 60% of overall hourly median wages by January 2026. Government took a cautious approach to the recommended increases to the NMW between 2019 and 2022 due to the challenges firms were facing from Brexit and the COVID-19 pandemic. As non-minimum wages have continued to rise, the gap between the minimum wage and the median wage has grown, and in 2023 the estimated "bite" was 51.8% (down from 56.7% in 2018). This reduction in the minimum wage as a proportion of the median wage means that more aggressive increases in the NMW are required over 2024 to 2026 to ensure that the targeted 60% will be reached.

Figure 2.9A Employees earning National Minimum Wage or less by sector, 2022[33]



Source: Low Pay Commission Living Wage Report 2023

Figure 2.9B Hourly Earnings (Median, Mean and National Minimum Wage), 2014 – 2023



Source: Low Pay Commission Report 2023, CSO[34]

[31] "National Minimum Wage or less" captures both those earning the headline minimum wage and those earning less than the headline minimum wage. There are a number of reasons an employee might be paid less than the minimum wage. An employee can legally be paid below the minimum wage due to certain aged based sub-minima rates that apply to those under 20. It should also be noted that minimum wage legislation does not apply to those working for a close relative, those taking part in a statutory apprenticeship or those engaged in prison work.

[32] As of 1 January 2024, the national minimum wage will increase by €1.40 per hour to €12.70 per hour.

33 Other NACE sectors" refers to NACE sectors R to U i.e., Arts, Entertainment and Recreation (R), Other Service Activities (such as repair of computers and personal/household goods), and Activities as Households as Employers (U) which includes households as employers of domestic personnel.

[34] Median Hourly Earnings from the Low Pay Commission Annual Recommendations Report 2023 was estimated using the Survey on Income and Living Conditions up to 2019. After this is estimated using Labour Force Survey data matched with quarterly wage data from tax returns made available through PMOD, the PAYE modernisation system that was introduced by Revenue in 2019. National Minimum Wage from the Low Pay Commission Annual Recommendations Report (2023). Mean hourly earnings is an unweighted average of the CSO's Earnings Hours and Employment Costs Survey. 2023 earnings based on Q1 and Q2.

Examining median earnings and employment by sector, Figure 2.11A below shows that some sectors such as Wholesale and Retail have relatively low hourly median earnings (€15.75) but employ a relatively high number of employees (13% of total employment in Ireland). In contrast, the ICT sector has the highest median earnings at €31.97 but a relatively low number of employees across the economy (6.6% of total employment). If this sector was excluded, the overall median would fall by 2% (from €19.60 to €19.19, see Table 2.10 and Figure 2.11B below). In statistical terms, this suggests that there is only a minor impact on the median wage from excluding the ICT sector. However, from the perspective of a business with workers on the NMW at present, this would equate to close to an additional €800 per worker *per annum*[35] (excluding any employment-related taxes/charges, etc.) in 2024 alone. Building on this, if we also exclude the public sector (Education plus Public Administration[36]) along with the ICT sector, the median falls further to €18.16 per hour.

Nonetheless, these variations simply reflect the consequences of excluding any given cohort of workers when seeking to determine a definition of the 'median wage'. For instance, when we exclude low-paid workers – including those more likely to be younger and to work part-time hours – such as those in the Accommodation and Food and the Wholesale and Retail sectors, the median is actually higher at €21.95. Some additional considerations are outlined in Annex E.

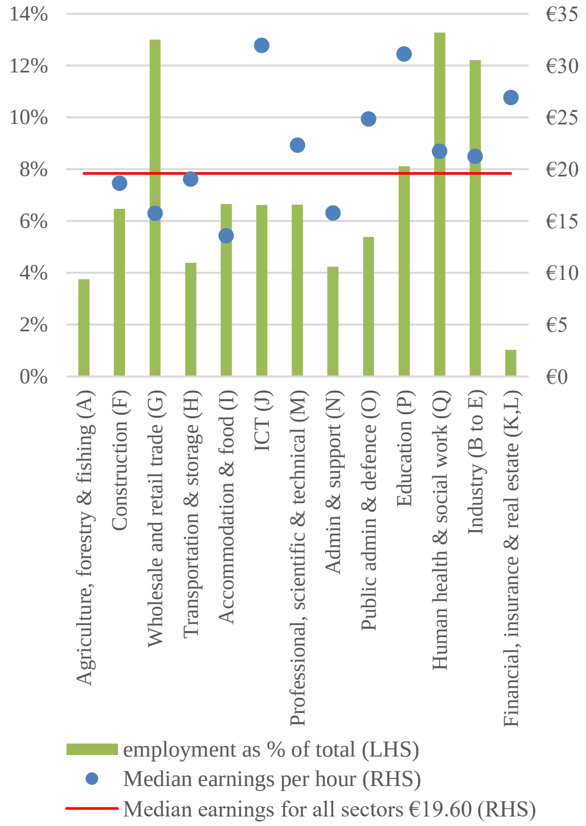
[35] Assuming one staff member paid at the NMW and working 37.5 hours per week over a full year
[36] Public administration and defence; compulsory social security

Figure 2.10 Median hourly earnings per hour, 2022

Median Hourly Earnings per hour	**Median hourly earnings per hour excluding ICT (J)**	**Median hourly earnings per hour excluding ICT (J) and Industry (B-E)**	**Median hourly earnings per hour excluding ICT (J), Education (P), and Public administration and defence; compulsory social security (O)**
€19.60	€19.19	€18.84	€18.16
Variance	(2.1%)	(3.9%)	(7.4%)

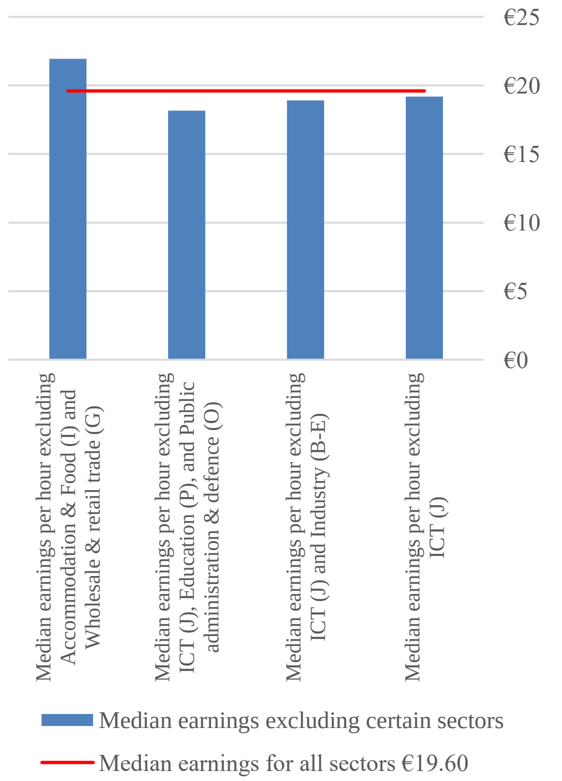
Source: CSO Structure of Earnings Survey 2022 (CSO own calculations)

Figure 2.11A Employment and median hourly earnings by sector



Source: CSO Labour Force Survey Q2 2023 and Structure of Earnings Survey 2022. Note: Median earnings not available for Agriculture, forestry and fishing (NACE Sector A).

Figure 2.11B Median hourly earnings per hour for all sectors and excluding particular sectors, 2022



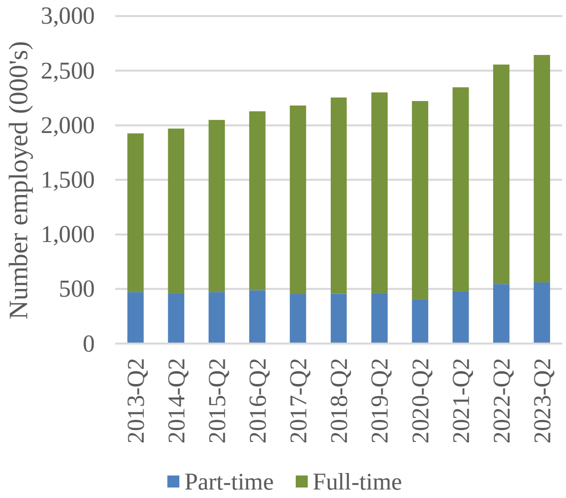
Source: CSO Structure of Earnings Survey 2022 (CSO own calculations)

It is worth noting that this issue was examined in the LPC's 2023 Annual Report, in which it stated that the possibility of excluding the Multinational Corporation (MNC) sector or the public sector from the estimation of a median wage was considered. The LPC decided, however, not to recommend this. Instead, it recommended that the median wage be "*calculated as the median hourly wage of all employees*." The possible distorting effect of MNCs on the median wage in Ireland was also considered in the National University of Ireland, Maynooth

(NUIM) report: "*Research on the Introduction of a Living Wage in Ireland*". This report found that the median wage is not influenced by a relatively small number of very high values.

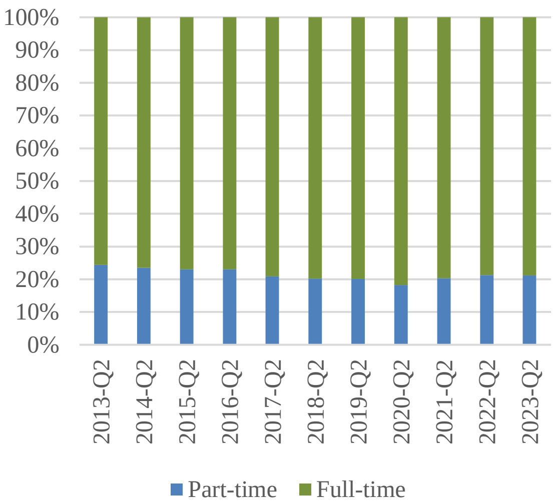
A further consideration is the number of employees working full-time and part-time. A substantial number of minimum wage workers are part-time. The number of people in part-time employment has slightly increased over the past decade from 470,100 in Q2 2013 to 559,100 in Q2 2023 (see Figure 2.12A), although, in percentage terms the share of those working part time has fallen from 24.4% to 21.2% over the same period (see Figure 2.12B). It is notable however that the share has slightly increased since before the pandemic (from 20.1% in Q2 2019).

Figure. 2.12A Number of people in full-time and part-time employment, Q2 2013 – Q3 2022



Source: Eurostat, Labour Force Survey

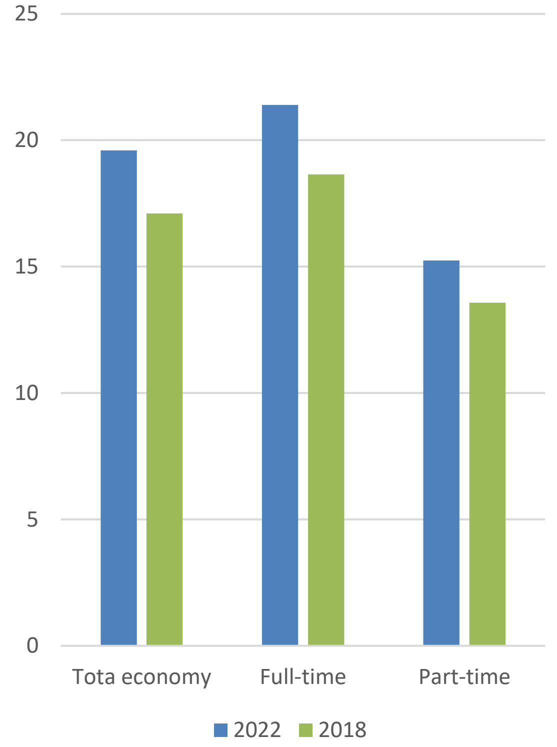
Figure 2.12B Percentage share of people in full-time and part-time employment, Q2 2013 – Q3 2022



Source: Eurostat, Labour Force Survey

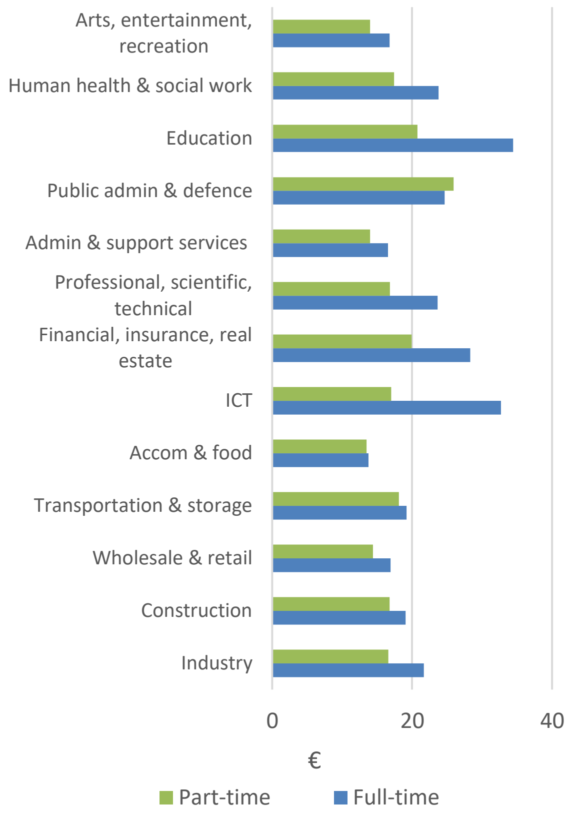
Overall, the difference in median earnings hourly for full-time and part-time workers in 2022 was considerable, at €21.40 versus €15.24, respectively (see Figure 2.13A). This compares to €18.65 and €13.57 in 2018, respectively. This means that while the median for full-time workers has increased by €2.75 from 2018 to 2022, the median for part-time workers only increased by €1.67 over the same period. There are also large variations in some sectors in 2022, particularly in the more internationalised sectors (see Figure 2.13B). The largest difference in median earnings for full time versus part time was in the ICT sector, where median earnings per hour for those working full time are almost double the earnings for those working part time (€32.70 versus €17, respectively). This is followed by the Financial, insurance & retail estate and the Professional, scientific & technical sectors. Conversely, the Accommodation and Food sector has the smallest difference in median hourly earnings for full time versus part time (€13.75 versus €13.50, respectively, or a difference of €0.25), followed by the Construction and Wholesale & Retail sectors.

Figure 2.13A Median earnings, Total economy, Full time, Part time, € per hour, 2022 and 2018



Source: CSO, Structure of Earnings Survey 2022
Note: The methodology of the Structural Earning Survey over this time period has lacked consistency so comparisons between years are not directly comparable and should be interpreted with this in mind.

Figure 2.13B Median earnings by sector, Full time versus Part time, € per hour, 2022



Source: CSO, Structure of Earnings Survey 2022

An additional aspect for consideration is sub-minimum wages for younger workers. Current legislation allows employers to pay young workers a sub-minimum wage[37]. The Low Pay Commission asked the Economic and Social Research Institute (ESRI) to complete research into youth rates. This research was published in November 2023 and found that the overall incidence of youth-rate sub-minimum employment in Ireland is very low, with just 0.7% of all employees on a sub-minimum youth rate. See Box 7.1 in Chapter 7 for more detail.

There is a high degree of heterogeneity attached to working conditions across sectors, and this is a key focus of our analysis. For instance, with respect to minimum wage earners in the economy, 7.1% employees (148,100 employees) in Ireland were earning the NMW, or less, in 2022 but the majority of these are concentrated in just a few sub-sectors with the highest number of these employees working in the Wholesale and Retail sector. This equates to 16.8% of those in the sector earning the minimum wage or less (45,100 persons in total). The equivalent proportion in the Accommodation and Food sector is 28.3% (40,400 persons in total). In addition, for many sectors of the economy, benefits such as sick pay and access to occupational pensions (i.e., pensions provided to the

[37] Those aged less than 18 years can be paid 70% of the full minimum wage rate, while those aged 18 years and 19 years can be paid 80 and 90 per cent of the full rate, respectively.

employee by their employer) are common but in the case of SMEs, this was less likely to be the case prior to the introduction of the measures referenced here.

There is no official data on pension coverage by firm size, but recent CSO statistics show that pension coverage for persons in employment in the Wholesale and Retail sector increased from 22% in Q3 2020 to 48% in Q3 2022, and for persons in employment in the Accommodation and Food sector, pension coverage increased from 15% in Q3 2020 to 24% in Q3 2022[38]. While many employers in the private sector already offer occupational pensions, some of these may also have low employee take-up[39]. Similarly, many employers – in particular, the public service and some parts of the private sector – offer salary top-ups to encourage take-up of benefits such as Maternity Leave and Paternity Leave. These top-ups have been found to be most common amongst larger, foreign-owned and high-turnover firms in sectors such as ICT and Finance.[40]

It is also important to consider that some sectors have pre-existing wage agreements in place, as a result of SEOs (Sectoral Employment Orders) and EROs (Registered Employment Orders). These can place a legally binding floor on rates and obligations in sectors (or in respect of groups of workers). As well as rates of pay, these arrangements can also cover sick pay, pensions and other working conditions. For example, the SEO (construction sector) 2023 came into effect from September 2023 and sets statutory minimum rates of pay and other conditions (sick pay and pension entitlements) for persons employed in the construction sector. There are currently EROs in operation across three sectors: contract cleaning, security, and the early learning and childcare sector.

[38] Based on pension coverage data published by the CSO. See: Overall Pension Coverage - CSO - Central Statistics Office
[39] Employers who do not offer occupational pension are required by law to provide access to a PRSA.
[40] Based on maternity and paternity benefit data published by the CSO. See Employment Analysis of Maternity and Paternity Benefits 2016-2019 - CSO - Central Statistics Office.

3. International Comparators

Key messages:

- Ireland is not out-of-sync with other advanced economies in introducing these improvements to working conditions. The introduction of these measures is important to bring Ireland into line with other EU and OECD countries (and bring the Irish economy into line with standard working conditions in Northern Ireland's labour market).

- Ireland is currently the only OECD country that does not operate any automatic enrolment or similar system as a means of promoting retirement savings. Ireland also has fewer Public Holidays than several EU27 countries. Most other EU members states have proportionately higher social insurance contributions than Ireland.

3.1 Introduction

The recommendation by the NCPC that this assessment be undertaken, noted the importance of doing so within a comparative EU framework. Ireland is not out-of-sync with other advanced economies in introducing these measures. In effect, many of these measures simply bring Ireland into line with common practice across the EU and the OECD. For example, Ireland has fewer Public Holidays than several EU27 countries. However, there can be variation in the number of Public Holidays across years in each country depending on their treatment in the event that a public holiday day falls on a weekend – with some countries compensating with a day in lieu (as is the case in Ireland), and others not. Placing these changes in an EU context is an important consideration as it allows for comparison with practice across key trading partners. This chapter sets out the international context to each of the measures included in this analysis.

3.2 Wages and prices

Ireland has an above average wage and cost economy when compared with the EU average. In 2022, Ireland's total hourly labour costs were €37.90, compared with €34.30 for the euro area average (see Figure 3.1A). Using this metric, Ireland ranks the ninth highest in Europe. While wage costs in Ireland are higher than the euro area average (at €31.80 versus €25.60), hourly non-wage costs are lower. The latter – which include employers' social insurance contributions – are €7 in Ireland, compared with a euro area average of €8.80. Overall, between 2021 and 2022, Ireland's total hourly labour costs increased by almost twice the euro area average (by 9.3% versus 4.7%, see Figure 3.1B).

Figure 3.1A Total economy employee compensation and other costs (hourly), 2022

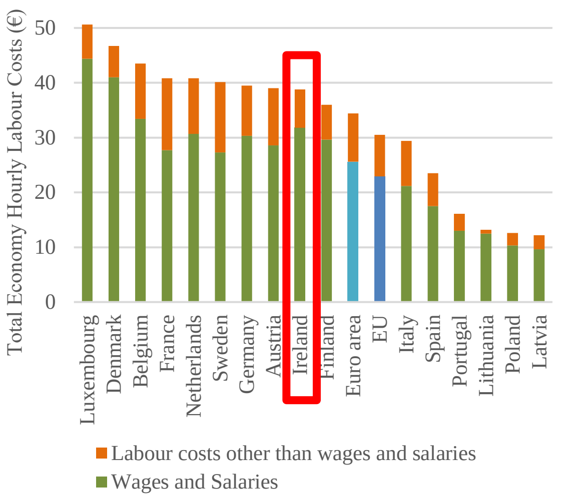
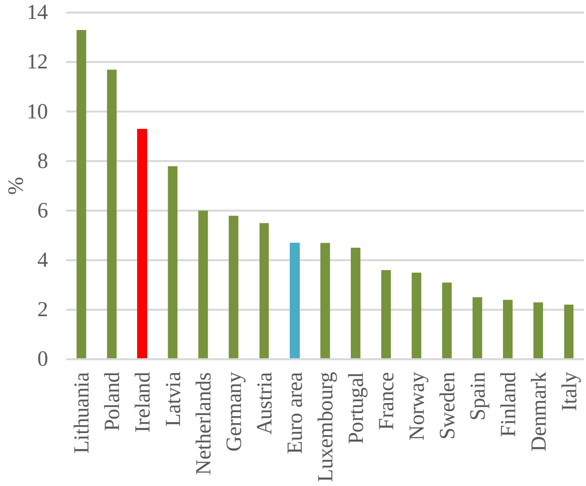


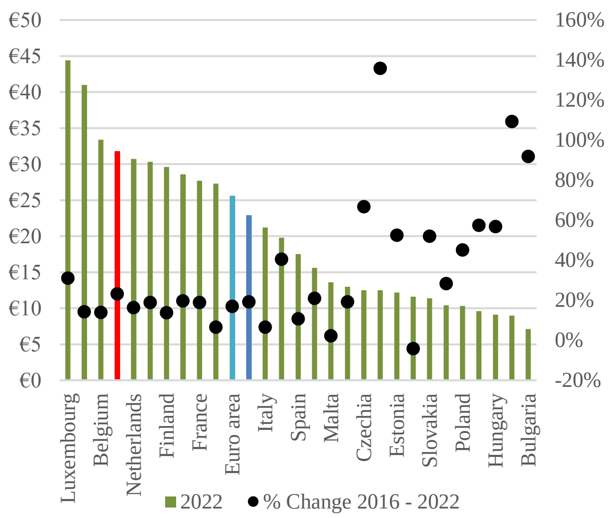
Figure 3.1B Growth in Hourly Labour Costs, 2022



Source: Eurostat

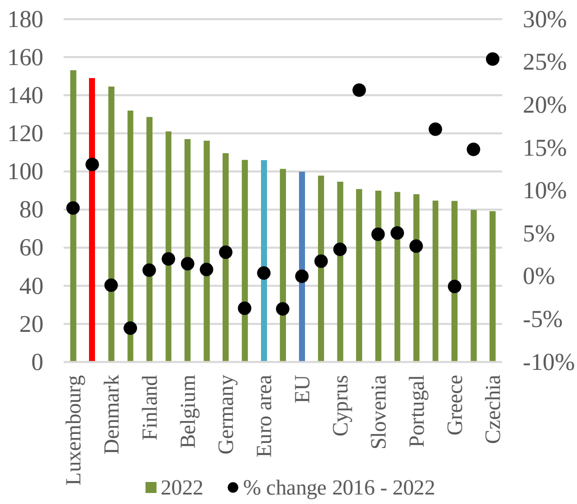
Wage levels have risen in Ireland over the past several years. This, however, is not out of line with other European countries. Ireland places 13th in terms of the increase in average wages and salaries in the EU over the period from 2016 to 2022, at 23% (see Figure 3.2A). As noted earlier, Ireland also ranks as one of the more expensive countries in Europe (see Figure 3.2B). Looking at Eurostat's PLI, Ireland is the second most expensive country in the EU, after Luxembourg – but third highest for food products – and has seen one of the largest increases in price levels in the EU since 2016 (at 13%).

Figure 3.2A Average hourly wages and salaries by EU country, 2022 and % Change 2016 – 2022



Source: Eurostat

Figure 3.2B Price Level Indices (PLIs) by EU Country, 2022 and % Change 2016 – 2022



Source: Eurostat

While consumer prices have been rising in Ireland, this has occurred at a slower rate than the EU average (see Figure 3.3A). As economic activity rebounded after the COVID-19 pandemic, and amid heightened geopolitical uncertainty following Russia's invasion of Ukraine, consumer price inflation has reached levels not seen since at least 2008. These geopolitical tensions have disrupted supply chains, causing large rises in international prices for energy, food, and other commodities. Over recent months, the rate of increase in consumer prices has eased to 3.9% (5.8% once energy and non-processed food are excluded[41,42]).

The Producer Price Index (PPI) measures the average movements of prices received by domestic producers for goods between one time period and another. Ireland's PPI fell at a faster rate than the EU average following the impact of COVID-19, before rising again in early to mid-2021 (see Figure 3.3B). Ireland's PPI started to fall again in mid-2022 and has been falling since.

Figure 3.3A HICP, EU and Ireland, (Index 2015=100), Jan 2017 – Dec 2023

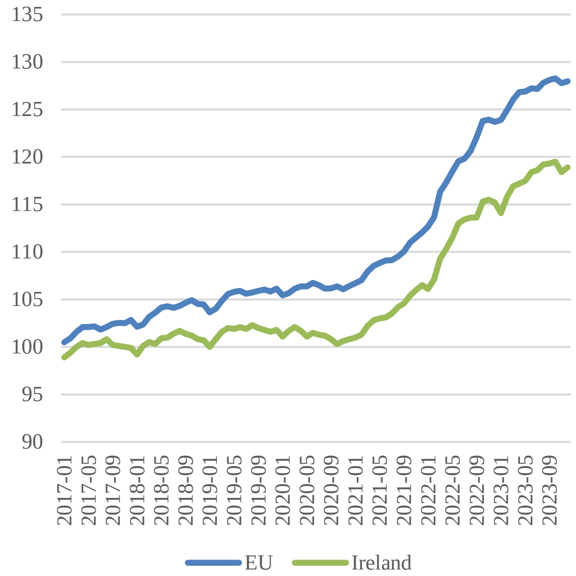
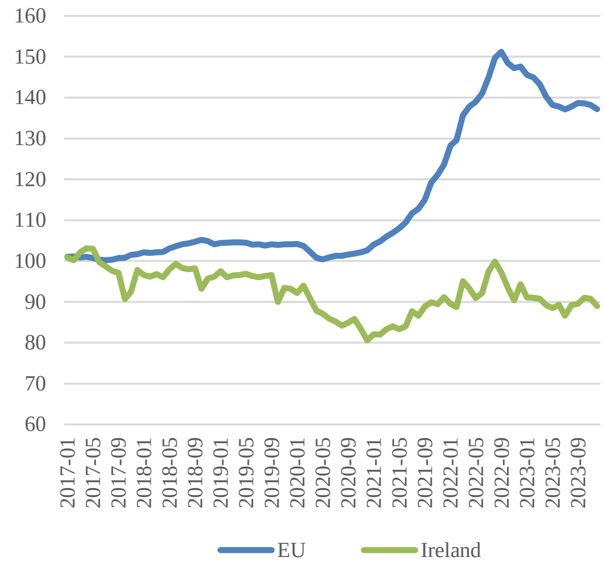


Figure 3.3B PPI, EU and Ireland, Index 2015=100), Jan 2017 – Dec 2023



Source: Eurostat

3.3 Social inclusion in Ireland and other EU countries

A key function of the social protection system is to act as a safety net for those at risk of poverty and social exclusion. A lack of adequate provision in Ireland has meant that some employees have not been able to avail of sick pay, an issue which came to the fore during the COVID-19 pandemic. This opposes the principle of 'horizontal equity', which refers to the idea that people in similar circumstances should be treated similarly. The *Roadmap for Social Inclusion, 2020-2025* includes a target level for Ireland of 3.5% and an EU ranking of 2nd place by 2025 for the 'in-work at risk of poverty rate[43]'. In 2018, Ireland ranked third lowest for the in-work at risk of poverty rate in the EU, at 4.8%. However, while the EU average rate has been falling in recent years, the rate for Ireland rose to 5.3% in 2022. Ireland's ranking has also worsened and is now 7th in the EU (see Figures 3.4A and 3.4B).

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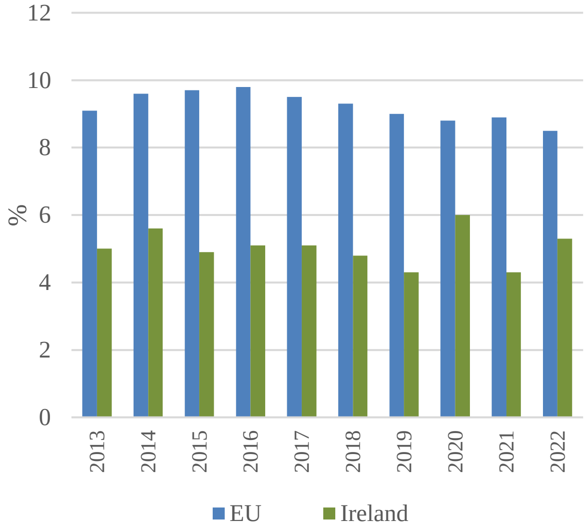
[41]Based on [Consumer Price Index December 2023 - CSO - Central Statistics Office.]

[42] In the case of HICP, inflation of 2.3% was recorded for the 12-months up to November 2023 (with the exclusion of items such as mortgage interest costs likely explaining the variance against CPI): See: [Press Statement Flash Estimate for the Harmonised Index of Consumer Prices November 2023 - CSO - Central Statistics Office]

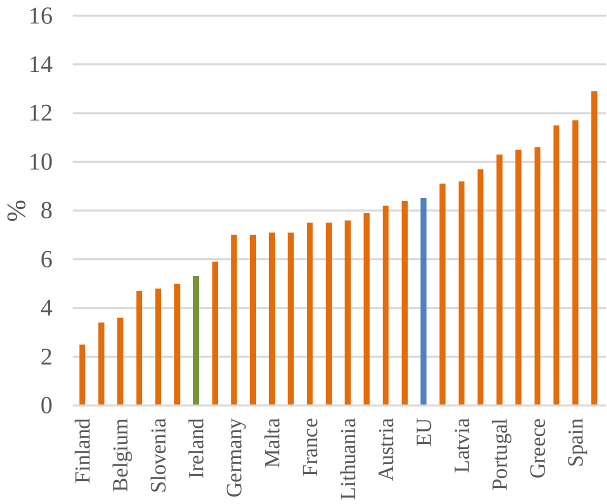
[43] In-work at-risk-of-poverty rate refers to the percentage of persons in the total population who declared to be at work (employed or self-employed) who are at-risk-of-poverty (i.e. with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).

Figure 3.4A In-work at-risk-of-poverty rate, Ireland and EU, 2013 - 2022



Source: Eurostat, EU-SILC survey

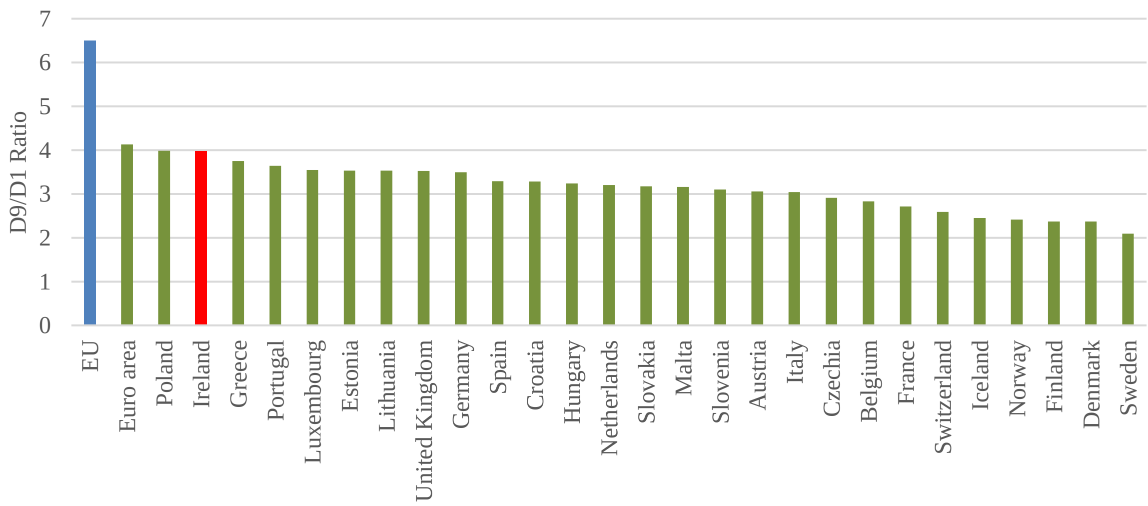
Figure 3.4B In-work at-risk-of-poverty rate, EU Countries, 2022



Source: Eurostat, EU-SILC survey

In addition, there is a large earnings disparity in Ireland. In 2018, the ninth-first decile earnings dispersion ratio in Ireland was 4.0, the second highest in the EU, after Poland (see Figure 3.5). This means that the 10% best-paid employees earned four times as much as the 10% lowest paid.

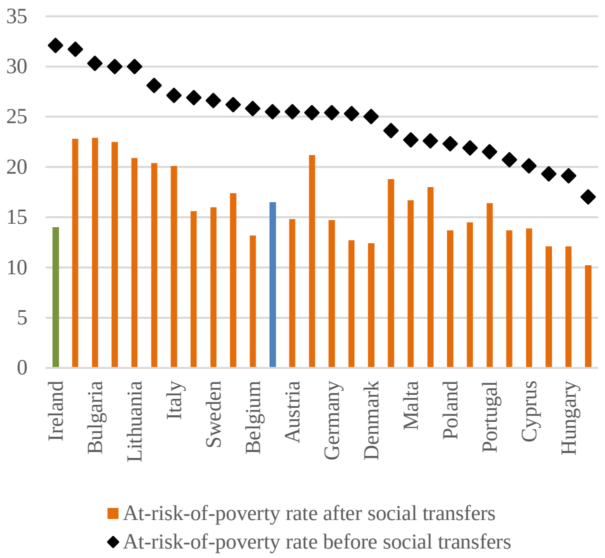
Figure 3.5 Ninth/first decile earnings dispersion ratio in Europe, 2018



Source: Eurostat, Structural Earnings Survey

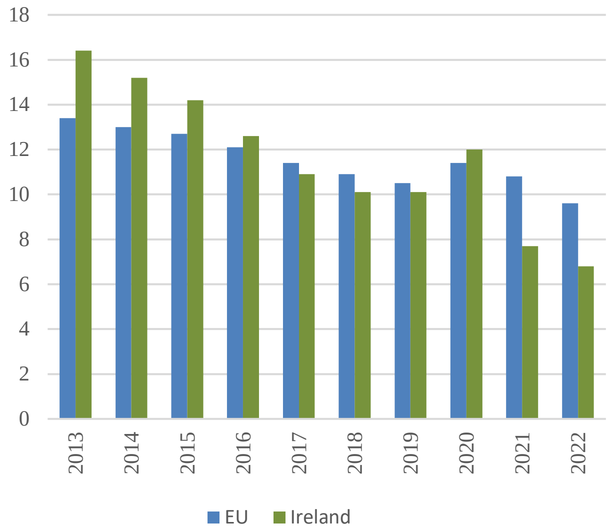
The progressivity of Ireland's tax and welfare system, however, is effective in mitigating these disparities. Indeed, the impact of social transfers – benefits received from the Government – is particularly evident in Ireland when compared to other EU countries. In 2022, Ireland's at-risk-of-poverty rate before social transfers was 32.1%, which is the highest in the EU. After social transfers, the rate falls to 14% and as a consequence, Ireland's rate falls to one of the lowest in the EU (Figure 3.6).

Figure 3.6 At-risk-of-poverty rate before and after social transfers[44], EU Countries, 2022, %



Source: Eurostat, EU-SILC survey

Figure 3.7 Young people neither in employment nor in education and training (NEET), 15-24 years old, EU countries, %



Source: Eurostat

The consideration of unemployment of younger people is also an important consideration (see also section 2.7). Ireland's NEET rate has been falling over the past decade and is lower than the EU average in 2022 (6.8% versus 9.6%) (see Figure 3.7). The seasonally adjusted youth unemployment rate[45] for persons aged 15-24 has fallen from 20.4% in April 2021 to 12.1% in January 2024. However, the rate has been rising in recent months, and is up from a rate of 10% one year earlier. Unemployment among young people tends to rise disproportionately during economic downturns (Bell and Blanchflower, 2011). Job opportunities are fewer, and those who are in work can be susceptible to unemployment as organisations consider it cost-effective to lay off younger workers who have fewer redundancy benefits.

3.4 Taxation and social insurance levies on employment

In 2022, Ireland had the third lowest Corporation Tax rate in the OECD and the second lowest in the EU[46] (see Figure 3.9). While Ireland has the joint fourth highest standard rate of VAT (at 23%)[47] and the fourth highest reduced rate of VAT (at 13.5%) in Europe, the reduced rate applies in respect of a more extensive range of activities compared with other member states (Department of Finance, 2023). Table 3.8 below provides the European VAT registration thresholds for resident and non-resident (foreign) businesses. From the 1st of January 2024, the turnover threshold at which business will have to register for VAT in Ireland will be increased to €80,000 for supplies of goods (increased from €75,000) and €40,000 for supplies of services (increased from €37,500). This is a higher threshold than applies elsewhere in the EU.

[44] Pensions excluded from social transfers. Cut-off point: 60% of median equivalised income.
[45] The youth unemployment rate captures only economically active youth, including those in full-time education and ignores economically inactive youth (who may be potential labour market entrants). The NEET rate includes youth not in employment, education and/or training (NEETs).
[46] In October 2021, Ireland agreed to join the OECD framework for a global rate of 15% tax. EU countries will implement the directive requiring the tax change throughout 2024.
[47] Although VAT is charged throughout the EU, each EU country is responsible for setting its own rates in line with the EU VAT Directive, which directs that Member States must apply a standard VAT rate of 15% or more and can apply up to two reduced VAT rates of 5% or more. Ireland applies the 23% and 13.5% VAT rates in this context.

Table 3.8 EU VAT registration & Intrastat reporting threshold, selected EU countries, 2024

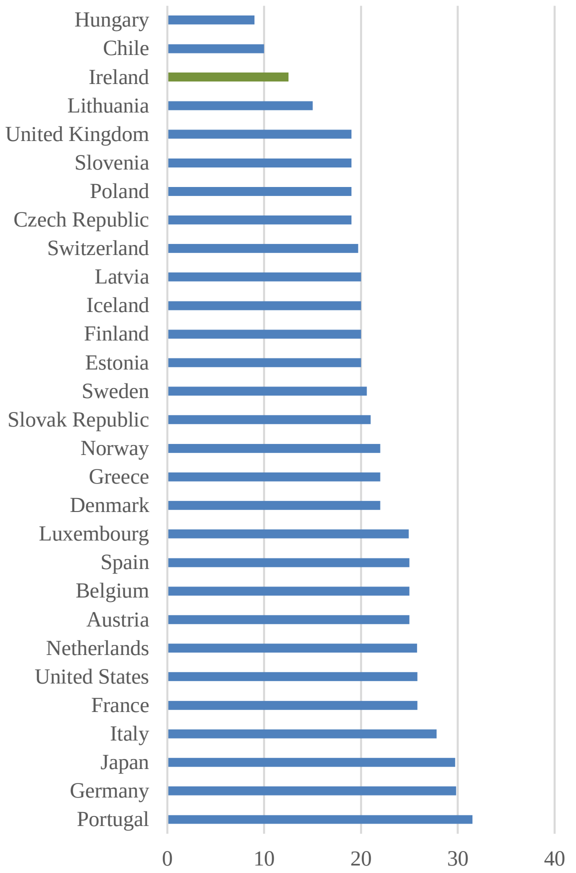
	Resident	Non-resident
EU One-Stop Shop	€10,000	€10,000 EU sellers only
Austria	€35,000	Nil
Belgium	€25,000	Nil
Bulgaria	BGN 160,000	Nil
Croatia	€40,000	Nil
Cyprus	€15,600	Nil
Estonia	€40,000	Nil
German	€22,000	Nil
Greece	Nil	Nil
Ireland	**Goods €80,000** **Services €40,000**	**Nil**
Latvia	€50,000	Nil
Lithuania	€55,000	Nil
Luxembourg	€35,000	Nil
Malta	Goods €35,000 Other €30,000	Nil
Netherlands	€20,000	Nil
Portugal	Nil	Nil
Slovakia	€49,750	Nil
Spain	Nil	Nil

Source: 2024 European VAT registration & Intrastat thresholds - vatcalc.com

The social security tax rate for employers is another important element of employment costs. In Ireland, these take the form of Employer's PRSI. At present, an employer pays 8.8% on all earnings up to €441 per week and 11.05% on all earnings above that threshold,[48] compared to an average social security tax rate for employers in Europe of around 20% (Table 3.11). Most other EU members states have proportionately higher social insurance contributions than Ireland (see Figure 3.10). In 2022, '*Labour costs other than wages and salaries*' in Ireland amounted to €7, below the EU average of €7.60. The top-ranking countries include France (€13.1), Sweden (€12.80) and Austria (€10.40).

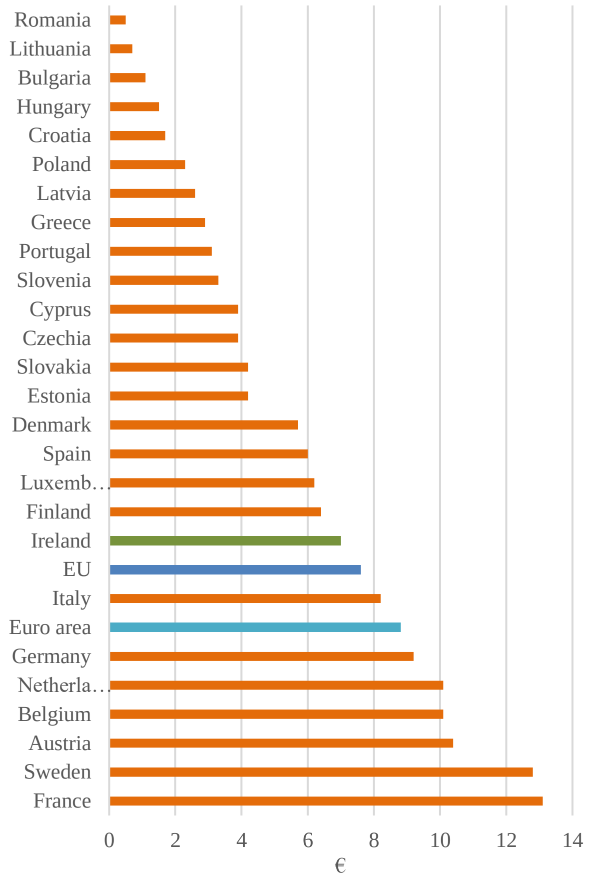
[48] Class A contributions.

Figure 3.9 Combined Corporation Tax Rates, Selected OECD Countries, 2022, %



Source: OECD Tax Database

Figure 3.10 Labour costs other than wages and salaries, EU Countries, 2022



Source: Eurostat

3.5 International comparators: Summary

This chapter sets out Ireland in a comparative international context. Table 3.12 provides an overview of how Ireland compares to the Euro area, EU27 and the OECD with respect to Statutory Sick Pay, AE retirement savings, Public Holidays, Remote Working legislation and the Living Wage. Before introducing the Statutory Sick Pay scheme in January 2023 (defined as money that an employer must by law provide to an employee who is unable to work because of an illness), Ireland was clearly an outlier, alongside Cyprus and Portugal, as one of the only countries in the Euro area and the EU without statutory sick pay. Ireland is currently the only OECD country that does not operate an Automatic Enrolment or similar system as a means of promoting retirement savings. In addition, Ireland currently has 10 Public Holidays (up by one since 2022). This is in line with the OECD average but below the Euro area and EU average of 12.

Table 3.11 Social Security Tax Rates in Europe

Country	SST Rate 2023
Austria	21.08%
Belgium	25.00%
Denmark	13.72%
Estonia	33.80%
France	29.50% – 31.30%
Germany	20.65%
Greece	23.33% – 24.74%
Hungary	13.00%
Ireland	**8.80% – 11.05%**
Italy	29.40% – 32.40%
Latvia	20.77% – 23.59%
Lithuania	1.77%
Luxembourg	12.22% – 15.30%
Malta	10.00%
Netherlands	16.55% – 21.55%
Poland	19.48% – 22.14%
Portugal	26.50%
Romania	6.25%
Slovakia	35.20%
Spain	29.90%
Sweden	31.42%
Switzerland	8.17% – 23.50%

Source: KPMG, EuroDev

In terms of the provision for remote working, regulations vary significantly across the EU and are strongly connected to industrial relations systems as well as workplace cultures (Eurofound, 2022). A number of member states have adopted new remote working legislation since the onset of the pandemic, including Austria, Latvia, Portugal, Romania, Slovakia and Spain. These changes have mainly focused on the access to remote work and the information to be provided to the employee by the employer; new definitions; working time organisation and the right to disconnect; and compensation for costs (Eurofound, 2022). Access to remote working is typically covered by company/sectoral-level agreements across Europe, although national level 'right to request' legislation has been established in France, Lithuania and Portugal, as well as in Ireland. Further information on remote working is set out in Chapter 11.

In addition, over the past few years, the UK has undergone significant changes in relation to the Living Wage. The introduction of the National Living Wage in April 2016 represented a substantial increase in the minimum wage for workers aged 25 and over. In November 2023, following recommendations by the UK's Low Pay Commission, the UK Government announced an increase in the minimum wage from £10.42 to £11.44 from 1st April 2024 – an increase of almost 10%. This will bring the UK's National Living Wage to approximately €13 per hour. Since 2020, the UK has been moving towards a new target set at 66% of median pay by 2024 and to lower the Living Wage age threshold to those aged 21 years over the same timeframe (as it currently only applies to those aged 23 years and over). In addition, the UK first introduced Statutory Sick Pay in 1983, and pension auto-enrolment has been introduced in stages, commencing in 2012. Consequently, it can be said that the suite of changes assessed here bring the Irish economy into line with standard working conditions in Northern Ireland's labour market.

The UK is one of Ireland's most important trading partners. Ireland's exports to the UK encompass a wide array of goods and services, ranging from agri-food products to pharmaceuticals, making the UK a vital market for Irish businesses. Conversely, Ireland serves as an important destination for UK exports, particularly in sectors such as machinery, manufactured goods, and financial services. Since Brexit, there has been a renewed focus on our shared border with Northern Ireland and the scope for cross-border trade and working patterns.

Table 3.12 Number of countries with measures in place compared to Ireland

	Ireland	Euro Area	EU27	OECD	UK	USA
Statutory Sick Pay	Yes (as of January 2023)	18/20	25/27	35/38	Yes	No
Auto-enrolment Retirement Savings (or	No	18/20	25/27	37/38	Yes	Yes
Number of Public Holidays	10 (as of 2023)	12 (average)	12 (average)	11 (average)	8	10
Remote Working legislation	Yes	14/20	15/27	25/38	Yes	No
Living Wage (NMW @ c.60% of median gross earnings)[49]	No (53%)	3/15[50]	4/20[51]	-	Yes[52] (£11.44/c.€13.40 as of April 2024)	Min wage $7.25 (variation by state)

Source: MISSOC.org; OECD; parliament.br; Croatia.hr; worldtravelguide.net; Visit Malta; *New remote working legislation around the world* [Updated], globalnews.lockton.com, 29 September 2023; *Telework still largely regulated at company level in Europe*, Eurofound.europa.eu, 1 September 2022; *Right To Request Remote Working – International Review*, Department of Enterprise, Trade and Employment, July 2021; Structure of Earnings Survey (2018), Eurostat; U.S. Department of Commerce; www.gov.uk.; www.hr-brew.com; www.usa.gov/minimum-wage

[49] The following countries do not have a minimum wage and are therefore excluded from the EU's Structural Earnings Survey dataset: Austria, Denmark, Finland, Sweden, and Italy.
[50] Excludes Austria, Cyprus, Estonia, Finland and Italy.
[51] Excludes Austria, Cyprus, Czech Republic, Denmark, Finland, Italy, Sweden.
[52] The UK Low Pay Commission met its target of a National Living Wage worth 60% of median earnings in 2020 and is expected to meet its subsequent target of 66% of median earnings in 2024.

4. Key Findings and Policy Considerations

Key Messages:

- Deriving an "economy-wide" or aggregate impact of these changes to working conditions is challenging, given the distinct ways in which each measure will impact on individual employers, sectors and the broader economy. Our analysis suggests that the introduction of these measures could lead to an overall increase of between 1.8% and 2.2% in wage costs on an economy-wide basis.

- To highlight the heterogeneity of potential impacts by sector, we present an assessment of impacts on highly stylised firms, chosen to represent a broad cross-section of sectors. This stylised analysis also highlights the sizeable gap in potential impact between different sectors of the economy. The implementation of the Living Wage is assessed to have the most significant impact on costs, while those operating in hospitality and retail are expected to experience a much sharper increase in their costs compared to others (e.g. the small hospitality business we model could experience cost increases in 2024 and 2026 of approximately 7% and 19% respectively).

- These costs are not costs to the economy, however, as a broad range of benefits are associated with these measures. Some of these benefits – for instance, improved staff morale and productivity – can be difficult to quantify. On the employee side, the benefits of these measures will reach workers at the lower ends of the earnings distribution and those working in smaller firms which are less likely to offer sick pay schemes or occupational pensions.

- There are also benefits for employers. One notable example relates to the issue of staff turnover and the difficulty – and cost – faced by employers in trying to replace experienced staff. Finally, there are considerable societal benefits which will accrue from these improvements to working conditions, including improvements in terms of gender equality (Parental Leave), participation rates (Parental Leave, Statutory Sick Pay), reductions in current in-work poverty rates (Living Wage), and the preservation of future living standards (AE).

4.1 An overarching assessment of impacts

Having considered the rationale underpinning these measures, and some of the relevant international comparators, the authors now proceed to present a whole of economy assessment that sets out the estimated cost impact of forthcoming improvements at an aggregate level. This is then further developed by way of a series of stylised, firm-specific examples which aim to demonstrate the differential impact across various sectors. These estimates draw on the material presented in Parts B and C of this assessment. For the purposes of developing these estimates, we have assumed that each set of changes to working conditions will be introduced as is generally understood at the time of writing.

The various changes assessed here will inevitably impose additional costs on many employers but it is important to bear in mind that there are measures in place to mitigate some of these pressures. For instance, in case of the Statutory Sick Pay arrangements, the application of the €110 threshold will serve to constrain the additional costs for employers. This payment will also only be available where a person is medically certified by a GP as sick and where that person has a minimum of 13 weeks' continuous service with their employer. Furthermore, the Sick Leave Act 2022 provides for a temporary exemption from the requirement to pay sick pay where the employer is in financial difficulty.

In the case of Parent's Leave, there is no legal obligation on an employer to pay employees during this period. Moreover, employees are required to provide six weeks' notice, whilst an employer has the right to defer the period of leave for up to 12 weeks. The phasing-in of these measures will also assist employers with implementation and in managing the administrative burdens that may arise.

Estimating the economy-wide impact

An estimate based on a single figure would be insufficient to fully explain the impact that these measures can be expected to have, and it is important to understand the differences in potential impact, both between and within individual sectors. Deriving an economy-wide impact is also difficult, given the distinct ways in which each measure will affect individual employers, sectors and the broader economy. For example, Statutory Sick Pay will bring an additional payroll cost for those employers not already operating a sick pay scheme, while the impact of Remote Work should be understood in terms of worker productivity. In this section, we have endeavoured to provide a quantitative assessment of the economy-wide impact of these measures. The quantitative analysis relies on certain underpinning assumptions, for example, regarding the number of sick days taken or the magnitude of spillover effects associated with changes to the NMW. The estimates of impact derived in this section should be interpreted with reference to these underpinning assumptions.

For Statutory Sick Pay, we focus on the change from 2023 (at 3 days sick pay) to 2026 (at 10 days sick pay), that will provide employees with an entitlement to a further seven days of sick pay.[53] Based on the average wage, the analysis indicates that this expansion of Statutory Sick Pay will have a maximum possible economy-wide impact of up to 1.6% of annual wage costs, depending on the number of sick days actually taken. However, this estimate does not account for pre-existing sick pay schemes. Using evidence that 66% of firms have a private sick pay scheme in place, allows for an approximate estimate of a maximum economy-wide impact by 2026, relative to 2023 of 0.54%. This assumes that the full statutory entitlement is availed of by all employees – in other words, this is the maximum estimated exposure.[54] In Table 4.1, we present alternative 'minimal', 'moderate' and 'significant exposure scenarios relating to assumptions regarding the take-up of Statutory Sick Pay. More specifically, we assume that employees take an average of five days (minimal) or seven days (moderate), or the

[53] These increases will be provided for by Ministerial orders in due course, having regard to the state of the economy generally, the business environment and national competitiveness. As set out in the Sick Leave Act 2022: Sick Leave Act 2022 (irishstatutebook.ie)

[54] It should be noted that survey data gathered by Ibec in 2021 suggests that 88% of employees have a sick-pay scheme in place (see: Wellbeing Report 2021, Ibec).

maximum possible ten days (significant) sick pay. As shown, this provides a range of possible impacts, from 0.17% to 0.54% of annual wage costs.

In terms of the impact of the additional Public Holiday, the available international literature indicates an economy-wide loss in national income of 0.09%. As national income (Gross Domestic Product, or GDP) is the value of output produced (less inputs, plus taxes minus subsidies), a similar impact might be expected in terms of firm output on an annual basis. As such, an estimate of 0.09% is used here as a proxy for the broader economy-wide cost (or loss in productivity) associated with the introduction of an additional Public Holiday. The international evidence also suggests a very low – to no – cost from the introduction of the Right to Request remote working arrangements. Indeed, there has been some discussion as to whether remote working may raise productivity in certain instances where remote work is appropriate. In terms of a broader impact, there is at least a theoretical risk that the right to request remote working could encourage the relocation of workers outside of Ireland (particularly to lower cost jurisdictions), with an adverse impact on the retention and recruitment of staff to roles based in Ireland.

We assume no additional material payroll costs arising for employers from the extension of Parent's Leave and Parent's Benefit. There are likely to be certain administrative and compliance costs associated with the replacement of staff on leave – in addition to potential productivity implications – but the Exchequer bears the financial cost of parental leave entitlements (and there are no employer wage top-up requirements in place). Consequently, these changes are likely to bring negligible additional costs for employers on an economy-wide basis, particularly given that some employers will have already had various forms of these arrangements in place.

Regarding the introduction of an AE retirement savings scheme (on a phased basis), this will likely have significant cost implications for many firms. By 2026 it is expected that firms will contribute 1.5% of gross pay towards qualifying staff pension savings (rising to 6% by 2033). It should be noted that not all staff will qualify, due to not crossing the earnings threshold, while others will opt out of the system. Higher income individuals are also more likely to have private pensions, so AE will affect those on the lower income distributions relatively more. Analysis by the Department of Social Protection using 2022 pension contribution and earnings data, provided by the Revenue Commissioners, indicates a year one cost of AE for employers across all sectors of 0.32% of total compensation. This assumes that there no opt-outs from the AE system. Table 4.1 presents alternate estimates under 'minimum' and 'maximum' based on assumptions regarding potential opt-outs of eligible AE participants. In each case, we assume that this opt-out rate is applied uniformly (and not a function of income, sector of employment, firm or other characteristic). Specifically, **we assume opt out rates are** approximately **20% (minimal), 10% (moderate), or 0% (**significant**)**. This results in a range of possible impacts on employer pay costs, from 0.25% to 0.32%. The estimate of total cost, including employee, employer, and state contributions) amounts to 0.17% of GDP (2022) and 0.32% of Modified Gross National Income (GNI*, 2022).

Finally, when attempting to quantify the cost of the transition to a Living Wage, we refer to OECD analysis of the impact of a 1% increase in the minimum wage on aggregate wage levels. While the OECD assessment did not explicitly model this impact for Ireland, we derive a result based on the results presented for other economies, linked to the proportion of employees earning the NMW. On this basis, we derive an overall estimate of the impact of this change by 2026 of 1.24% (based on an impact of 0.62% in terms of direct costs plus 0.62% arising from spillover costs). Analysis from NUIM had suggested that the impact from moving to the Living Wage would be closer to an additional 1% in aggregate wage costs. This estimate, however, did not take account of spillover costs (or 'pay relativities') associated with changes in pay for those further along the wage distribution. That work was also undertaken at a time when the NMW 'bite' was proportionately closer to the target living wage of 60% of the median wage, than at present. Consultations undertaken with employer representatives suggests that spillover costs associated with increases in the NMW could be significant (see discussion in Chapter 5 and Chapter 6).

Box 4.A: Estimating spillover effects associated with a change in the National Minimum Wage

So-called spillover effects (i.e., pay relativities, or trickle-up costs) can be expected to arise when firms adapt pay scales to maintain wage differentials versus minimum wage employees. As outlined by Redmond and McGuinness (2021), wage spillovers occur to higher paid employees following a minimum wage increase, as individuals value their relative standing in the wage distribution. If these spillovers occur across firms, as well as within firms, then the minimum wage increase could also have increased the average labour costs in firms with no minimum wage workers. Their analysis indicates that, following the 2016 minimum wage increase, average weekly labour costs increased by 5.4 per cent more in firms with 100 per cent of employees on the minimum wage relative to firms with no minimum wage workers.

We derive estimates of the magnitude of potential spillover effects from a recent OECD review of the relevant literature (see Aeberhardt et al. 2012, and Gautier et al. 2022 (for France), Biewen et al. 2012 (for Germany), Giupponi et al. 2022 (for the UK), and Gopalan et al. 2021 (for the US)). Spillovers are modelled such that the effect of the increase in the minimum wage dissipates as we move further up the earnings distribution. As an example, for France, an increase in the minimum wage of 1% is estimated to lead to an increase of 0.2% in wages for those earning up to 1.2 times the minimum wage; 0.1% for those earning between 1.2 and 1.5 times the minimum wage; 0.1% for those earning between 1.5 and 2 times the minimum wage level; and 0% for those earning more than this. Similarly, for Germany, an increase in the minimum wage of 1% is assumed to lead to an increase of 0.02% in wages up to 1.2 times the minimum wage, and 0% for those earning more than this.

On an economy-wide basis, our analysis suggests that the introduction of these improvements to working conditions could lead to an overall increase of between 1.8% and 2.2% in wage costs on an economy-wide basis (see Table 4.1). It should be noted that this does not necessarily equate to an equivalent increase in the cost to the consumer. The scale of any pass-through to consumers is dependent on a number of factors, including the capacity – and/or willingness – of employers to absorb such costs in each sector. As these are aggregate or economy-wide estimates, they will not necessarily reflect the situation in specific sectors or firms. There will be employers for which these changes will lead to more significant increases in payroll-related costs but for others, it is anticipated that there the impact will be less pronounced. This variability in terms of impact is further explored below.

The estimates presented in Table 4.1 assume that all measures currently proposed will be enacted as planned by 2026. With regard to the auto-enrolment retirement savings scheme, the estimates assume an overall cost of 1.5% of gross earnings per (eligible) employee. This is the anticipated employer contribution in the first three years of the scheme. Once the scheme has been fully implemented, the employer contribution rate will have risen to 6% and so the overall cost to employers will be more significant.

Table 4.1 Estimates of the economy-wide impact on wage costs of forthcoming changes to working conditions, 2026 versus 2023

Measure	Economy-Wide Average		
Living Wage – Direct Impact	0.62%		
Living Wage – Spillovers/Relativities	0.62%		
Public Holiday	0.09%		
Right to Request Remote Work	~ 0%		
Parents Leave/Benefit	~ 0%		
	Minimal exposure	**Moderate exposure**	**Significant exposure**
Statutory Sick Pay	0.17%	0.31%	0.54%
Pension Auto-enrolment	0.25%	0.28%	0.33%
Total	**1.75%**	**1.92%**	**2.19%**

Source: Own calculation. Note: These estimates are excluding PRSI.

4.2 Administrative and compliance costs

Although not explicitly modelled in this paper, the introduction of these improvements to working conditions will likely place a greater administrative burden on some employers (and cause some level of disruption). The authors do not intend to provide an exhaustive list of impacts arising from such tasks but these may include the following: adjusting payroll systems in line with increasing wage costs and the introduction of the auto-enrolment retirement savings scheme; the design and negotiation of amended pay scales as pay relativities are maintained or adjusted; the recruitment of replacement staff to cover absences (whether due to sickness or Parental Leave); and the processing of requests for remote work. These are all likely to have an impact on employers. These impacts will take the form of either direct costs, or indirect (e.g., time) costs. These will likely be particularly impactful for smaller firms without the necessary capacity, at present, to undertake such tasks.

However, the planned phasing-in of these changes, and the conditions attached to certain schemes, will assist in mitigating against the impact of these administrative costs (e.g. for parental leave the employee will be obligated to provide six weeks' notice and the employer has a right to defer the period of leave for up to 12 weeks). It is anticipated that the costs to employers from adjusting payroll systems in line with the introduction of auto-enrolment retirement savings will be minimal. Where an employee is opting into auto-enrolment the proposed

Central Processing Authority would undertake the relevant administration while the firm would only need to process a payroll instruction.

Further measures

Although beyond the specific scope of this study, the authors also recognise that a number of additional measures are being introduced which may also impose administration and compliance requirements on firms (Table 4.2 below).

Table 4.2 Further measures – administration and compliance requirements for firms

New Whistleblowing rules	Deriving from the EU Whistleblowing Directive, amendments have been made to the Protected Disclosures Act strengthening protection for whistle-blowers in the workplace came into force on 1 January 2023. The amended legislation obliges all private sector employers with 50 or more employees to establish and maintain formal channels and procedures for employees to make protected disclosures.
Enhanced reporting requirements	The Finance Act 2022 introduced Section 897C which will require employers to report details of certain expenses and benefits made to employees and directors. Reporting the details of these expenses and benefits commenced on 1 January 2024.
Domestic Violence Leave	The Work Life Balance and Miscellaneous Provisions Act 2023 ("the Act") was enacted on 04 April 2023. Section 7 of the Act introduces domestic violence leave. The entitlement to domestic violence leave of 5 paid days in a 12-month period came into operation on 27 November 2023.
Launch of Ireland's Deposit Return Scheme (DRS)	This is a new bottle and can recycling system, known as the Deposit Return Scheme. The scheme began on 1 February 2024. Producers across the country will be responsible for the costs related to the collection and recycling of these containers, and retailers which install the relevant machines to take back in-scope products will be paid a handling fee.

4.3 Recognising the heterogeneity of impacts across sectors

To highlight the heterogeneity of potential impacts by sector, we present an assessment of impacts on highly stylised firms, chosen to represent a broad cross-section of sectors (see Table 4.3a and Table 4.3b). These stylised examples highlight the significant variation in impact by firm type, depending on pre-existing working conditions, staffing composition, and the wage distribution. These figures correspond to the scale of the cost impact relative to baseline payroll costs in each case. These are estimates only and, for illustrative purposes, assume no changes in the terms of a given firms opening hours, employment patterns or pricing strategies. In terms of the Living Wage, it is also important to differentiate between the impact of the introduction of the Living Wage – where the NMW will move to a level of 60% of the median wage – from broader changes in minimum rates of pay which can be expected to arise from inflationary pressures (see Box 4B below). It should also be noted, while some firms may not see any significant direct impact on their own payroll or administration costs arising from these measures, they may see an increase in input costs through supply chains which is not included in this analysis.

Box 4B: Wage pressures and the Living Wage

In a high inflation environment, and at a time of full employment, upward wage pressures can be expected, independent from policy intervention. In other words, it is not realistic to expect that wages would remain unchanged in the absence of the Living Wage transition. For this reason, an appropriate baseline against which to assess the impact of movements towards the Living Wage should differentiate wage developments associated with the transition to a Living Wage – as outlined by the Low Pay Commission – from broader wage developments. The latter would include wage increases that can be expected to arise regardless of any public policy intervention related to the Living Wage.

One example of this, is to develop a counter-factual in which it is assumed that the NMW adjusts in such a way, that the ratio of the NMW to the median wage is held constant at the long-term average (e.g. the 10-year average over 2014 to 2023). This would result in a minimum wage fixed at 53% of the median wage over 2024-2026. We derive this as a counterfactual baseline and estimate the cost of the Living Wage as that excess cost over and above these baseline increases in the NMW.

The specific assumptions made in respect of each of these stylised firms are detailed below and summarised in Table 4.3.

- Firm 1 is an SME operating in the hospitality sector, specifically, a family-owned restaurant. This firm employs a small cohort of staff all earning the statutory minimum wage (of €11.30 an hour). This firm does not provide sick pay beyond the statutory minimum requirement (of 3 days) and does not operate a pension scheme for staff. Staff take, on average, 10 sick days per year. We consider two versions of this firm:
  - Firm 1a ('Hospitality A') employs all staff on a full-time basis. As a result, all staff are assumed to be earning enough to be eligible for the auto-enrolment retirement savings scheme;
  - Firm 1b ('Hospitality B') employs a mixture of full time and part time staff. Only full-time staff are earning enough to be eligible for the auto-enrolment retirement savings scheme.
- Firm 2 is a SME (mid-sized) operating in the retail sector, employing staff with a mix of experience. 50% of staff are assumed to earn the NMW, while the remainder are earning in excess of the NMW, generally in managerial or supervisory roles. This firm provides five days of paid sick leave (two more than the statutory minimum requirement of 3 days) and does not operate a pension scheme for staff. Staff take, on average, 10 sick days per year. We consider three versions of Firm 2:

  - Firm 2a ('Retail A') maintains, to some degree, pay relativities among staff earning in excess of the NMW. The pay for this cohort is assumed to increase at half the rate of increase associated with the move to the Living Wage for those earning the NMW (i.e., there is an impact associated with pay relativities but these relativities are not fully maintained). All staff are employed on a full-time basis, and as a result, all staff are assumed to be earning enough to be eligible for the auto-enrolment retirement savings scheme.

  - Firm 2b ('Retail B') mirrors Firm 2a but employs a mix of full time and part time staff, with only full-time staff assumed to be earning enough to be eligible for the auto-enrolment retirement savings scheme.
  - Firm 2c ('Retail C') does not anticipate a significant cost arising from pay relativities associated with movements towards the Living Wage.[55] A mixture of full time and part time staff are employed, with only full-time staff assumed to be earning enough to be eligible for the auto-enrolment retirement savings scheme.

- Firm 3 ('Large MNC') is a large Multinational Corporation operating in the ICT sector, employing a large cohort of specialised staff, all earning well in excess of the NMW (and the proposed Living Wage). This firm provides ten days of paid sick-leave and operates a pension scheme for staff.
- Firm 4 ('Construction') is a firm operating in the construction sector, where wages, pensions and sick pay are all determined in line with Sectoral Employment Orders.[56]
- Firm 5 ('Legal') is a legal services firm where all staff are earning well in excess of the NMW (and the proposed Living Wage). As with the case of the large ICT firm (Firm 3), this firm also provides ten days of sick pay and operates a pension scheme for staff.

We present the results of this assessment for the Living Wage in Table 4.4, while the results across all measures are shown in Figure 4.4 (and detailed in Annex C). As outlined in Box 4B, the estimated impact of movement towards the Living Wage is assessed relative to a baseline scenario that assumes annual growth in wages such that the ratio of the minimum wage to the median wage is held constant at the ten-year average (i.e., 53%). Among the measures examined, implementation of the Living Wage is assessed to have the most significant impact on costs. This stylised analysis also highlights the sizeable gap in potential impact between different sectors of the economy, with those operating in hospitality and retail experiencing a much sharper increase in their costs compared to others. As shown in Table 4.3, the policy changes associated with the Living Wage could add 4.5% and 15.5% to pay costs for a small hospitality firm in 2024 and 2026, relative to 2023 (compared to a negligible cost impact for a legal services firm, for instance). Overall, among the stylised cases examined here, the largest impact is on 'Hospitality A', the small hospitality business, with estimated cost increases in 2024 and 2026 of approximately 7% and 19% respectively. This is followed by Retail A, with estimated increases of approximately 5% and 15%, for 2024 and 2026 respectively.

It is important to note that the cost impact of the increase in the number of days for which Statutory Sick Pay can be claimed, will ultimately depend on the number of certified sick days taken by staff. Across these stylised cases, we assume that staff take, on average, ten sick days per year (for part-time staff, we reduce this amount *pro rata*). Engagement with employer groups suggests that the take-up of the additional days of Statutory Sick Pay will be

[55] As noted in Chapter 1, the NMW is intended to set a floor for hourly pay rates (and does not stipulate pay rises for other employees).
[56] The SEO in the Construction sector provides for increased rates of hourly pay for workers in the construction sector, as well as amendments to the minimum pension contributions. The SEO sets the minimum hourly rates for workers, but this does not prevent an employer paying a higher rate of pay than defined in the SEO. In addition, Section 5 of the National Minimum Wage Act states that the Act: "does not apply to the remuneration of a person who is… an apprentice within the meaning of or under the Industrial Training Act, 1967, or the Labour Services Act, 1987".

substantial, particularly among the staff of firms within the hospitality and retail sectors. If we were to relax this assumption, and assume that staff take, on average, five sick days per year, the increase associated with Statutory Sick Pay in 2026 (where Statutory Sick Pay days are set to increase to 10) relative to 2023, would be 0.68% for Hospitality A (as opposed to 2.39% under the baseline assumption that staff take 10 sick days on average). For Retail A, the increase would be 0.63% (compared to 2.19%).

Finally, the tenth public holiday was introduced in February 2023. As the cost impact of these measures on each of our stylised firms is assessed in 2024 and 2026, relative to 2023, we assume no additional cost associated with the extra public holiday (that is, there is no additional cost arising in respect of this extra public holiday in 2024/2026, apart from those associated with increases in the NMW). However, we can estimate the impact of moving from nine to ten public holidays, using the pay and working conditions that are expected to prevail in 2024 and 2026 (this is a hypothetical estimate, given that the tenth public holiday has already been introduced and has been in place since February 2023). For our stylised hospitality and retail firms, we estimate a cost impact ranging from approximately 0.3% to 0.4% (for both 2024 and 2026).

Table 4.3. Estimated impact across sectors, stylised firms

	Small Hospitality Firm		Mid-sized Retailer			Legal Services Firm	Construction Firm	Large MNC
Sector	**Firm 1a**	**Firm 1b**	**Firm 2a**	**Firm 2b**	**Firm 2c**	**Firm 3**	**Firm 4**	**Firm 5**
Staffing	All minimum wage; full time	All minimum wage; mix of full time / part time	Mix of: minimum wage (full time); above minimum wage; and salaried staff (> Living Wage)	Mix of: minimum wage (full time / part time); above minimum wage; and salaried staff (> Living Wage)	Mix of: minimum wage (full time / part time); above minimum wage; and salaried staff (>Living Wage)	All salaried (> Living Wage)	Mix of apprentices, new entrants and experienced staff.	All salaried (> Living Wage)
Pay relativities	N/A	N/A	Yes (at half the rate of the LW increase)	Yes (at half the rate of the LW increase)	No	N/A	N/A	N/A
Sick pay scheme (< 3 days)	No	No	Yes; 5 days	Yes; 5 days	Yes; 5 days	Yes; 10 days	Set in line with Sectoral Employment Order	Yes; 10 days
Pension scheme	No	No	No	No	No	Yes	Set in line with Sectoral Employment Order	Yes

Source: DETE own assessment.

Table 4.4. Estimated impact of Living Wage policy on costs for stylised firms

Living Wage	Small Hospitality Firm		Mid-sized Retail Firm			Legal Services Firm	Construction Firm	Large MNC
	Firm 1a	**Firm 1b**	**Firm 2a**	**Firm 2b**	**Firm 2c**	**Firm 3**	**Firm 4**	**Firm 5**
Increase in 2024 (versus 2023 baseline)	12.39%	12.39%	9.81%	8.65%	8.65%	~ 0%	0%	~ 0%
minus broader wage developments	*(7.88%)*	*(7.88%)*	*(6.52%)*	*(6.52%)*	*(6.52%)*			
LW policy-driven increase	4.51%	4.51%	3.29%	2.13%	2.13%	~ 0%	0%	~ 0%
Increase in 2026 (versus 2023 baseline)	32.75%	32.75%	27.10%	27.10%	23.10%	~ 0%	0%	~ 0%
minus broader wage developments	*(17.26%)*	*(17.26%)*	*(15.80%)*	*(15.80%)*	*(15.80%)*			
LW policy-driven increase	15.49%	15.49%	11.30%	11.30%	7.30%	~ 0%	0%	~ 0%

Source: DETE own assessment. Notes: For Firms 1 and 2, all NMW (f/t only versus f/t + p/t) plus broader wage developments are modelled separately from Living Wage policy-induced developments. For Firm 3, assumes no change in wage costs as a result of Living Wage policy, reflecting high levels of remuneration in the firm with no staff earning at or near to the NMW. Firm 4 assumes no change in wage costs as a result of Living Wage policy, as conditions are set in line with a Sectoral Employment Order. Finally, Firm 5 assumes no change in wage costs as a result of Living Wage policy, reflecting high levels of remuneration in the firm with no staff earning at or near to the NMW.

Figure 4.4a. Payroll impact of measures, 2024 versus 2023

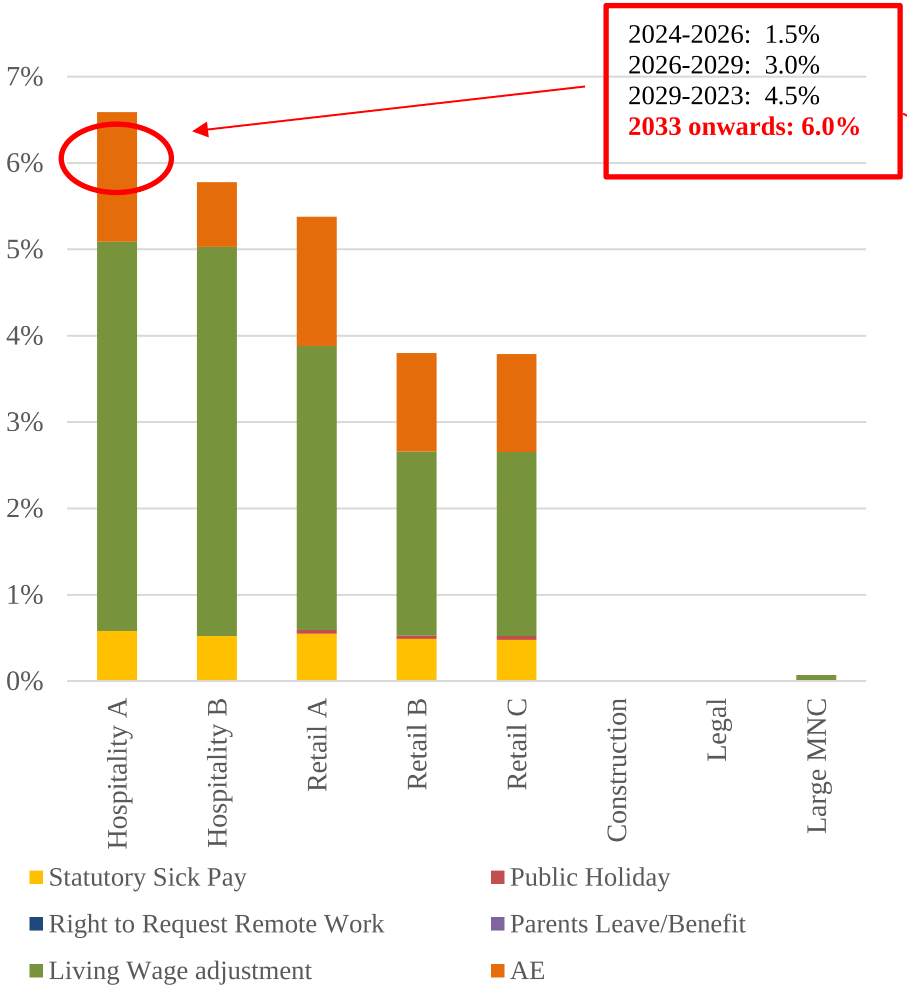
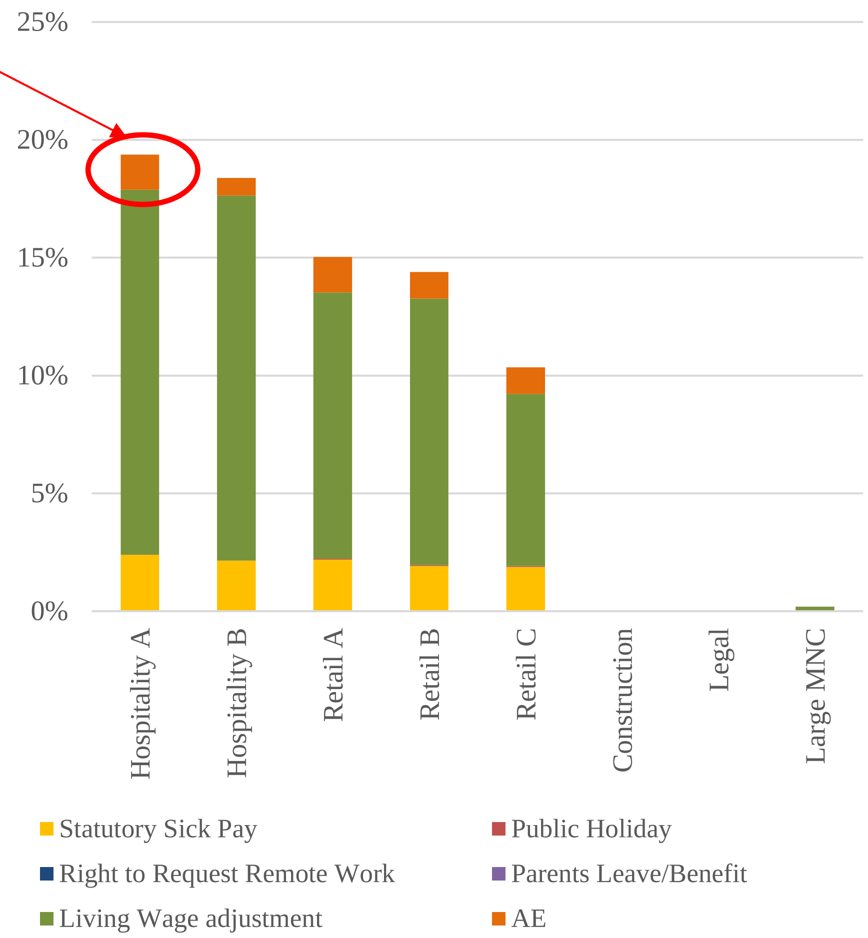


Figure 4.4b. Payroll impact of measures, 2026 versus 2023



Source: DETE own assessment. Note: This estimate excludes PRSI. As the cost impact of these measures on each of our stylised firms is assessed in 2024 and 2026, relative to 2023, we assume no additional cost associated with the extra public holiday. We can estimate the impact of moving from nine to ten public holidays, using the pay and working conditions that are expected to prevail in 2024 and 2026. For our stylised hospitality and retail firms, we estimate a cost impact ranging from approximately 0.3% to 0.4%.

Figure 4.5a. Cost impact of measures versus broader wage developments, 2024 versus 2023

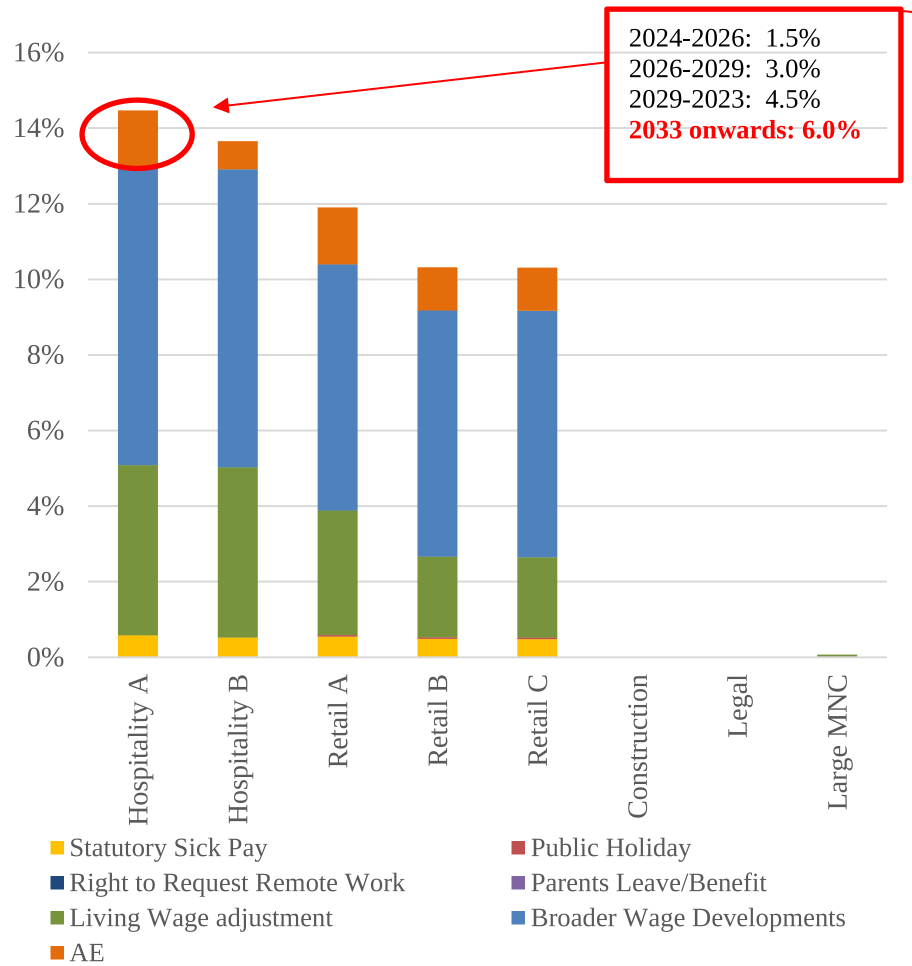
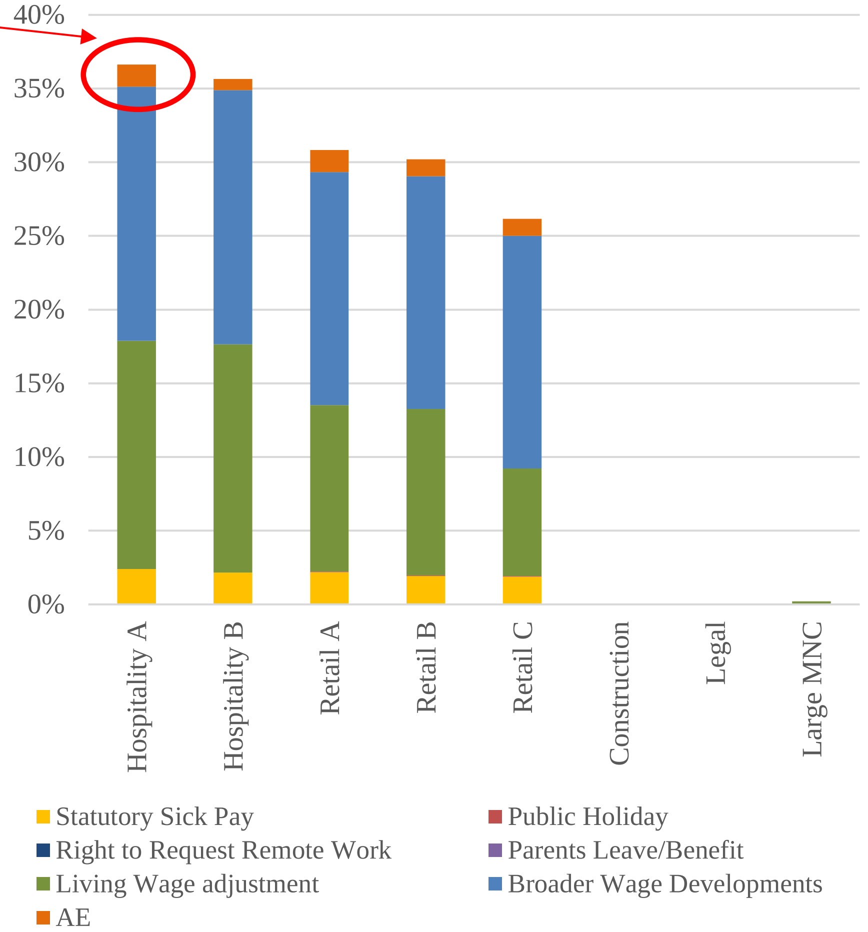


Figure 4.5b. Cost impact of measures versus broader wage developments, 2026 versus 2023



Source: DETE own assessment. Note: This estimate excludes PRSI. As the cost impact of these measures on each of our stylised firms is assessed in 2024 and 2026, relative to 2023, we assume no additional cost associated with the extra public holiday. We can estimate the impact of moving from nine to ten public holidays, using the pay and working conditions that are expected to prevail in 2024 and 2026. For our stylised hospitality and retail firms, we estimate a cost impact ranging from approximately 0.3% to 0.4%.

4.4 Quantifying the benefits associated with these changes

A broad range of benefits are associated with these measures and these are addressed in the text below. Some of these benefits – for instance, improved staff morale and productivity – can be difficult to quantify, for both employers and employees. In the case of employees, the benefits associated with certain measures are more immediately obvious. For instance, the introduction of Statutory Sick Pay will broaden access to this support to workers across the entire economy (rather than it being limited to those working in certain sectors, as was the case until recently). Similarly, the introduction of the auto-enrolment retirement savings will considerably broaden pension coverage across Ireland's working population. This, in turn, will ultimately yield wider societal benefits in terms of improved income security for an ageing population into the future. In the case of the transition to a Living Wage, this will most directly benefit those currently earning less than 60% of the median wage. This has the potential to reduce both inequality and the incidence of in-work poverty. In terms of Parental Benefit, this can reduce expenditure on childcare by working parents.

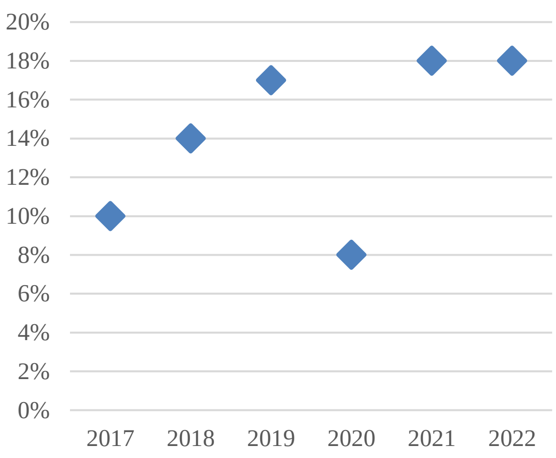
There are also benefits for employers arising from these measures. One notable example here relates to the issue of staff turnover and the difficulty – and cost – faced by employers in trying to replace experienced staff (see Table 4.6 for a summary of the costs associated with employee turnover). Recent evidence from the UK suggests that workers on the National Living Wage are less likely to move jobs following its introduction, thus leading to a reduction in staff turnover rates. Against the backdrop of a tight labour market, there is some evidence to suggest that many firms do face a challenge in terms of staff recruitment and retention. Ibec (2023) has recently put the level of staff turnover at close to 10% but other industry commentators have suggested that it could be much higher. For instance, some HR firms are reporting staff turnover levels well above 2017 levels, at close to 18% in 2023 (see Figure 4.7). A recent report by CIPD Ireland (2023) found that half of respondents reported that turnover rates had increased in 2023 (with one in every three reporting a turnover rate in excess of 16%).

Recent research by Fáilte Ireland (2023) noted that staffing issues were proving to be problematic for the tourism industry with a risk that this could act as a brake on the capacity for some firms to take on new business and/or pose a reputational risk. The majority of respondents across the restaurant (71%) and hotel (63%) sectors reported that the recruitment and retention of skilled staff was a key concern. It is envisaged that the measures assessed here will assist firms by mitigating against some of the reasons that employees might opt to leave. High staff turnover and the associated recruitment costs can be burdensome for many firms, particularly smaller and more labour-intensive firms. The costs of turnover are manifold and will range from advertising to interviewing to training new staff. Other costs are more difficult to quantify but are nevertheless real – from the loss of institutional knowledge to the reputational impact of high staff turnover.

Table 4.6 Summary of costs associated with employee turnover

Recruitment Agency Costs
Time Spent Interviewing
Reference Checks
Training
Temporary employees and Overtime
Advertising

Figure 4.7 HR Barometer Report – Employee Turnover Rate, 2017 to 2022



Source: Adare HR Management

4.4.5 Estimating the benefits for employees

For illustrative purposes, we present an assessment of benefits using stylised examples intended to represent several sectors of Ireland's economy, similar to our approach in Section 4.3. The specific assumptions made in respect of each of these three stylised examples are detailed below and summarised in Table 4.6.

- Prior to the introduction of these measures, Worker 1 and Worker 2 earn the statutory minimum wage (of €11.30 an hour), do not have any sick pay provision beyond the statutory minimum requirement and are not enrolled in a pension scheme. After the introduction, these workers have benefitted from the adjustment towards a living wage (of €12.70 an hour), 5-day statutory sick pay provision and are enrolled in a pension scheme (1.5% employee contribution).
- Worker 3 is earning well in excess of the statutory minimum wage (and the proposed living wage). Before the introduction of these measures, this worker's employer already provides ten days of statutory sick pay and operates a pension scheme for staff.
- Worker 4 is a full-time employee in the construction sector, where wages, pensions and sick pay are all determined in line with Sectoral Employment Orders[57]. This worker earns above the NMW (€21.49 per hour in the 'before' scenario, €22.24 per hour in the 'after' scenario), has sick pay provision and is enrolled in a pension scheme (€3.97 daily in the 'before' scenario and €4.11 daily in the 'after' scenario) before and after the introduction of these measures.
- Worker 5 is an employee in a legal services firm and earns well in excess of the statutory minimum wage (and the proposed living wage). Similar to Worker 4, this worker earns above the NMW, has ten days sick pay provision and is enrolled in pension scheme before and after the introduction of these measures.

[57] The SEO in the Construction sector provides for increased rates of hourly pay for workers in the construction sector, as well as amendments to the minimum pension contributions. The SEO sets the minimum hourly rates for workers, but this does not prevent an employer paying a higher rate of pay than defined in the SEO.

It is clear from Table 4.8 below that the benefits of these measures will reach workers at the lower ends of the earnings distribution and those working in smaller firms which are less likely to offer sick pay schemes or occupational pensions. Although not included in the earnings calculation of these examples, it is worth noting that the right to request remote work and parent's benefit can also provide a benefit in terms of net income, as a result of reduced commuting time to the workplace and money saved on childcare expenses.

Table 4.8 Benefits of working conditions to employees before and after forthcoming changes

	Worker 1 (Hospitality, Full time)		Worker 2 (Retail, Part time (20 hours))		Worker 3 (ICT, Full time)		Worker 4 (Construction, Full time)		Worker 5 (Legal, Full time)	
	Before	**After**	**Before**	**After**	**Before**	**After**	**Before**	**After**	**Before**	**After**
Gross Earnings (annual)	€22,916	€25,755	€11,752	€13,208	€82,763	€82,763	€43,582	€45,508	€65,869	€65,869
Net Earnings (annual)	€22,652	€25,333	€11,488	€12,921	€76,969	€76,969	€42,516	€43,873	€59,283	€59,283
% change to net earnings		**11.8%**		**12.5%**		**0.0%**		**3.1%**		**0.0%**
Sick Pay Scheme	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓
Pension Coverage	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓
Additional Public Holiday	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓
Right to Request Remote Work	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓
Parents Leave/Benefit	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓

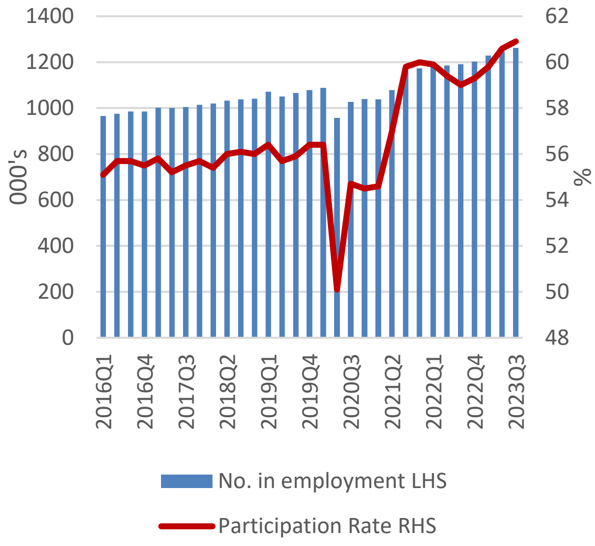
Source: DETE based on stylised examples of workers

NOTE: Worker 1 and Worker 2 earnings based on NMW in 2023 (€11.30) and 2024 (€12.70). Worker 3 hourly earnings based on CSO average hourly earnings in the ICT sector in Q3 2023 (€40.81) and assumes pension annual contribution of 7%. Worker 4 earnings, sick pay and pension based on earnings for craftsperson set out in SEO (2023 hourly rate from 18th September 2023 and 2024 hourly rate from 5th August 2024 - see here: New Minimum Pay and Pension Rates for the Construction Sector (mssthehrpeople.ie)). Worker 5 earnings based on CSO average hourly earnings in Professional, Scientific & Technical activities sector in Q3 2023 (€32.48) and assumes pension annual contribution of 10%.

4.4.2 Broader Societal Benefits

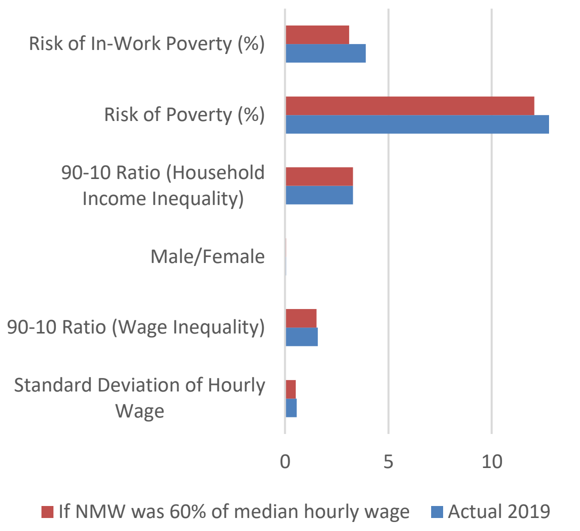
There are also broader societal benefits which will accrue from these improvements to working conditions. These include the promotion of gender equality, with more men availing of leave periods to assist with home duties on foot of Parent's Benefit and more women having the opportunity to (re-)enter the labour market due to the greater availability of remote working options. The latter can also play a role in facilitating access to employment for jobseekers with a disability. Such developments can be beneficial for society in numerous ways – fostering a more just, inclusive, and prosperous community – and can contribute to economic development by tapping into the full potential of the entire workforce. Over recent years, the female participation rate has been increasing in Ireland and the relevant international literature does suggest that measures to support flexible working options, including remote working, do play a role in attracting new pools of workers into the labour market.

Figure 4.9A Labour market participation rate (ILO) for females and males, Q1 2016- Q3 2023



Source: CSO, LFS

Figure 4.9B Inequality/Poverty at actual wages in 2019, and if the NMW was 60% of the median hourly wage



Source: NUIM Report (2022)

Poverty reduction leads to a more inclusive, dynamic, and sustainable development that benefits everyone. Figure 4.9B shows a range of household and wage inequality/poverty measures at the actual median hourly wage in 2019 and what these would be if the NMW was set at 60% of the median wage, taken from the NUIM report on the Living Wage. The overall percentage in poverty falls from 12.78% to 12.07%. In particular, there is projected to be a strong impact on reducing in-work poverty through the introduction of the Living Wage, with the risk of in-work poverty expected to drop from 3.91% to 3.1% of households (see also section 7.5 in Chapter 7). In addition, evidence suggests that the gender wage gap for the low paid may be effectively reduced by the NMW (Doorley, 2018).

Additional Disposable Income and the Domestic Economy

There is also the potential for a broader macroeconomic impact if movement towards the Living Wage results in a rise in compensation of employees (i.e., wages) in aggregate terms. Should an increase in aggregate wages fuel growth in aggregate demand, this can be expected to ripple throughout the economy. For example, a €1 increase in the demand for output in "retail" is associated with a broader multiplier of €1.26 (and of this €1 in additional demand, just under half will be spent on compensation of employees, or 43%).[58]

The Household Budget Survey (HBS), carried out every five-years, surveys the expenditure patterns of Irish households and is used to update the weighting basis of the Consumer Price Index. The latest estimates (from the HBS 2015/2016)[59] show that, as a proportion of total household expenditure, the lowest income decile spent more than the highest income decile on essentials, including 'food' (at 17.8% versus 11.7%), 'fuel and light' (9.3% versus 3.0%), and 'housing' (22.7% versus 19.2%). In contrast, the highest income decile spent relatively more on 'miscellaneous goods, services and other expenditure' (at 40.5% versus 27.2%).[60]

Lower income households are also generally expected to have a higher marginal propensity to consume (MPC), meaning that a relatively greater share of the increase in their income will be spent rather than saved. The MPC tends to be lower for higher income households, and households that already have significant savings (these households are less likely to be constrained in the first place, and so, additional income has a smaller impact on spending behaviour). Using data from the Household Finance and Consumption Survey, Lydon and McIndoe-Calder (2021) estimate the MPC associated with a transitory increase in income for Irish households at different (equivalised gross) income deciles. The lowest income decile has an estimated MPC of 53%, versus 52% for the middle-income decile and 45% for the highest income decile. The MPC tends to be higher for permanent versus temporary increases in income. Similar results are found for a broad sample of European countries (see Drescher, Fessler and Lindner (2020)).

It is important to note these broader effects when seeking to understand the net impact of changes in the minimum wage. Meanwhile, pension auto enrolment will, by design, facilitate the substitution of present-day consumption for greater consumption at retirement. It may also act as a drag on wage growth, as it reduces the fiscal capacity available to firms to accommodate increases in pay.

4.5 Potential for broader macroeconomic implications

Estimating Wage Spillover Effects

Table 4.10 (adopted from the *OECD Employment Outlook 2023*) simulates the impact of a 1% increase in the minimum wage on aggregate wages, accounting separately for direct (affecting workers paid at or below the minimum wage) and spillover (affecting workers paid above the minimum wage) effects. The results are also shown for a more extreme case, where 20% of all employees are assumed to be paid at or below the minimum wage. The share of employees paid at or below the minimum wage in each case, refers to a base year (in parentheses). Based on these discrete country-specific studies, the OECD provide a detailed consideration of the impact of such changes over time (and how this impact can differ by country).

Although the OECD analysis did not include Ireland, we derive estimates based on the proportion of employees paid at or below the minimum wage in Ireland relative to others (i.e., at 7.1%, this places Ireland at the mid-point between Germany and the UK). This implies that, in Ireland, assuming the share of employees paid at or below

[58] Based on CSO data, see: Supply_&_Use_and_Input-Output_Tables_-_Explanatory_text.pdf (cso.ie).
[59] The 2020 version of the survey was delayed due to the COVID-19 pandemic.
[60] Based on Household Budget Survey data from the CSO, see Household Expenditure - CSO - Central Statistics Office.

the minimum wage is 7.1% (as in 2022), a 1% increase in the minimum wage would lead to a 0.08% increase in the total wage bill (0.04% arising from direct effects and a further 0.04% associated with spillover effects). The authors do note, however, that spillover effects may be stronger in a high inflation environment and where minimum wage increases are larger and more frequent.

It is important to note that the impact of an increase in the minimum wage on aggregate wages will depend not only on the proportion of staff earning the minimum wage but also on the distribution of earnings more generally. For example, in France, approximately 14% of workers earned the minimum wage in 2022 and the wage distribution is relatively compressed, while in the United States, around 6% of workers earned the minimum wage in 2022 and the wage distribution is less compressed (OECD, 2023). In the UK, research on the impact of the NMW was reviewed extensively in a report by the UK's Low Pay Commission in 2016. The report concluded that in general, there was little effect on employment but found some evidence that the NMW had led to small reductions in hours.

Table 4.10 Direct, Spillover and Overall effects from a 1% increase in the minimum wage on aggregate wage levels

	Proportion of employees on the minimum wage	Direct effect	Spillover effect	Overall effect	Overall effect for 20% of employees paid at or below minimum wage
USA	6% (2022)	0.02%	0.01%	0.03%	0.09%
Germany	8.4% (2018)	0.04%	0.01%	0.05%	0.11%
UK	5.9% (2021/2022)	0.03%	0.07%	0.10%	0.18%
France	11% (2018)	0.06%	0.14%	0.19%	0.23%
Ireland (est.)	**7.1% (2022)**	**0.04%**	**0.04%**	**0.08%**	**0.14%**

Source: DETE based on analysis by the OECD (Employment Outlook 2023). Results are based on the European Union Structure of Earnings Survey (EU-SES) scientific-use files (SUFs) for France and Germany, the UK Labour Force Survey for the UK, and the Current Population Survey (CPS) for the US. Ireland estimate derived based on the proportion of employees earning the minimum wage relative to other countries.

Impact on employment

There is a broad literature on the impact of increases in the Minimum Wages at various levels of increase. Whilst some studies suggest a (small) negative impact on aggregate levels of employment, others do not find any adverse impact. A recent study from the ESRI found that minimum wage employees are more likely than higher paid employees to fear job loss (Redmond, Ciprikis, and Staffa, 2023). The same study also stated that '*the evidence indicates that minimum wage increases are associated with <u>a reduction in hours worked among minimum wage employees</u>, but do not lead to significant job losses*'. An earlier study by the ESRI also found that there was evidence to suggest a link between rises to the NMW and a fall in the average number of hours worked by employees at the NMW (relative to other workers). This was found to be particularly true for those in the hospitality (i.e., accommodation and food) sector and non-Irish nationals on the NMW (Redmond and McGuinness, 2022). Beyond Ireland, a multi-State study in the U.S. found that although the increasing of Minimum Wage rates did not necessarily reduce the aggregate number of hours worked *'the way in which those* *hours were allocated among workers did change*' with a significant decrease in the average number of hours worked per employee (*and a concomitant fall in actual worker compensation*) (Yu, Mankad, and Shunko, 2021). Similarly, research on the impact of the NMW was reviewed extensively in a report by the UK's Low Pay Commission in 2016. The report concluded that in general, there was little effect on employment but found some evidence that the NMW had led to small reductions in hours.

From an Irish perspective, a recent comparable increase in a Minimum Wage was witnessed in Spain. In that case, the Minimum Wage was increased by 22% in 2019. An ex-ante analysis by the Bank of Spain (Barcelo et al, 2021) has estimated that the increase in the Minimum Wage over the period 2018-2020 could produce negative consequences in terms of the labour market. Specifically, these changes were projected to lead to a loss of total employment of approximately 1.4%. In the case of the most affected workers, the authors found that the potential loss of employment could be in excess of 11%.

Rising Labour Costs and Potential Inflationary Effects

Apart from the potential impact of an increase in the minimum wage on aggregate wage levels, a further potential impact relates to the pass through of higher labour costs to consumers, in the form of consumer price inflation. Employers can respond to a rise in their labour costs in three main ways (or some combination thereof): (i). a reduction in employment, whether in the form of a reduced workforce and/or a reduction in hours worked per employee (workers bear the burden of increased costs); (ii). a reduction in profits (firms bear the burden of increased costs); or (iii) an increase in prices (consumers bear the burden of increased costs). An important constraint on the effectiveness of increasing prices relates to the ability, or willingness, of consumers to pay. This could, for example, be a function of rising housing costs – particularly for those coming off of a fixed rate mortgage and those on a tracker mortgage (Coates et al, 2023) – and/or the capacity of consumers to substitute between both items and outlets.

A further complicating factor is the propensity for these improvements in working conditions to be leveraged during salary negotiations. If business costs and working conditions have increased, then businesses may be less likely to increase wages during salary negotiations, as their costs are higher, profits are lower, and benefits have already de facto increased as a consequence of the policies outlined.

In practice, some employers may consider some combination of these options over time. The international literature presents mixed results on the pass-through to consumer prices, but overall, the weight of empirical evidence would suggest that the risk of fuelling price inflation as a result of increases in the minimum wage is relatively limited. Dube (2019) notes a muted effect of increases in the minimum wage on employment, suggesting that firms adjust to higher minimum wages in other ways (i.e., by raising prices or reducing profits). Leung (2021) finds similar results, estimating that a 10% increase in the minimum wage raises grocery store prices by 0.6% to 0.8%. Lindner (2022) estimates that an increase in the minimum wage of 20% in the UK would lead to a modest rise in inflation, of 0.2%.

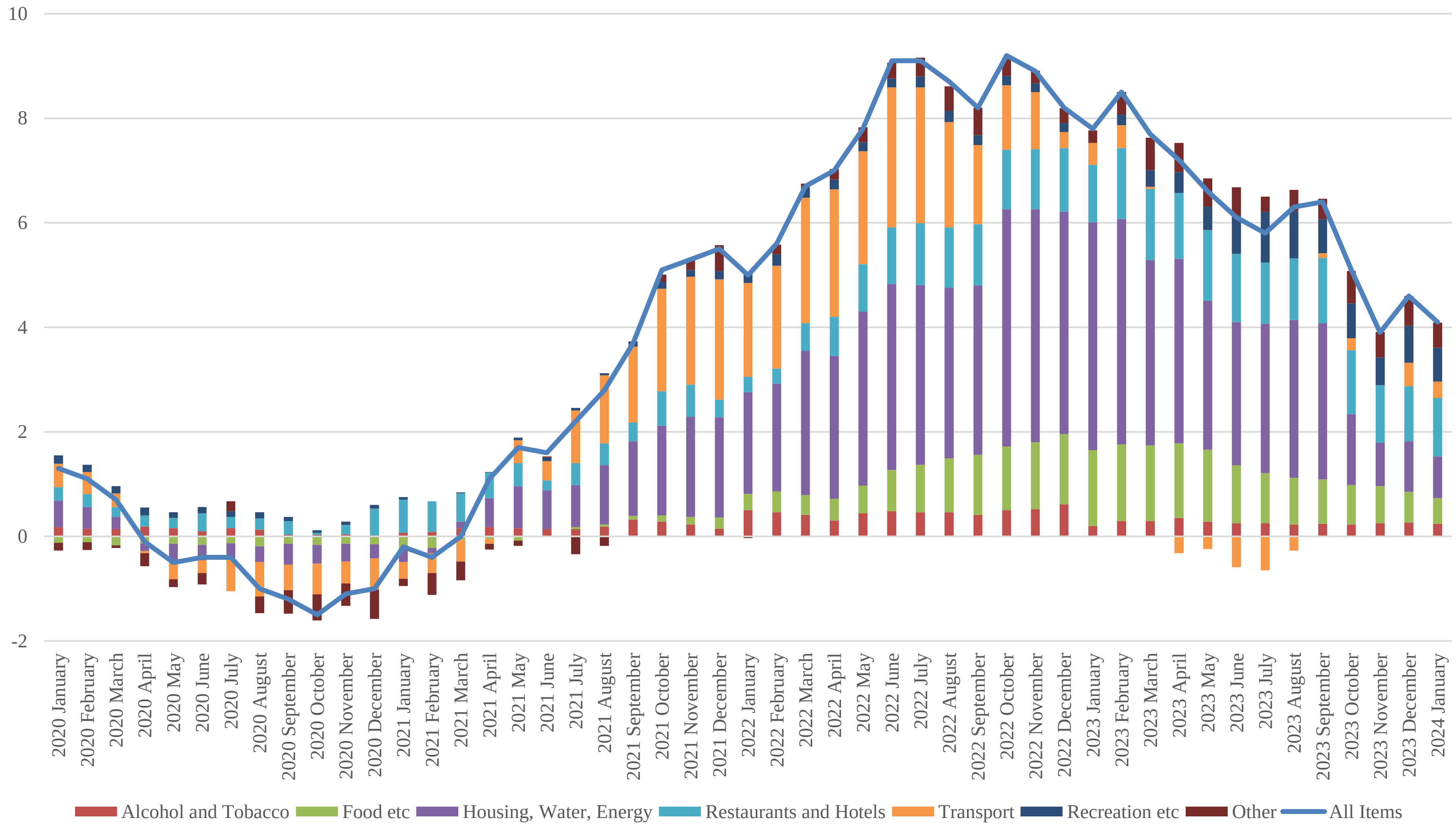
Harasztosi and Lindner (2019), in a study of the effect of a minimum wage increase in Hungary, identify a distinction between the traded and non-traded sectors. Overall, they find that approximately 75% of a minimum wage increase was paid by consumers, with 25% paid by firm owners. In non-tradable sectors, all firms were hit by the minimum wage shock, meaning that individual firms could raise their prices without a loss in competitive advantage or a large fall in output. Firms in the traded, manufacturing, and exporting sectors were more likely to face foreign competitors that were unaffected by the minimum wage shock, and therefore, price increases in these sectors leads to a competitive disadvantage and a large fall in output for affected firms.

Examining the impact over the short- and long-run, Hurst *et al* (2022) illustrate that a large increase in the minimum wage results in a small adjustment in the employment of workers who initially earn less than the new minimum wage, with these workers experiencing an increase in labour income and welfare. However, in the long-run, firms substitute away from low-productivity workers with low education, in favour of high-productivity workers with low education, therefore reducing the employment, income, and welfare of the lowest-income workers that the minimum wage is intended to support. The authors argue that a more effective way to increase the welfare of low-productivity workers is through a progressive tax and transfer scheme, as opposed to a large increase in the minimum wage which risks pricing them out of the labour market by making them relatively too expensive for firms to hire.

A recent NCPC Bulletin examined the importance of CPI weights in determining overall inflation (NCPC, 2023b). The various categories of goods and services in the CPI are weighted to reflect their actual share within the household budget. For instance, as households would typically spend more on heating their home than on tea, a rise in the price of energy has a greater impact on the overall CPI than a similar increase in the cost of tea (see Figure 4.11 and Table 4.12). Consequently, the pass-through of heightened labour costs in those sectors that are most impacted by increases in the minimum wage (in terms of their proportion of minimum wage employees) is unlikely to have a material impact on changes in inflation at the aggregate level.[61]

[61] Nonetheless, it is important to note that different inflation levels will be experienced at different points of the income distribution, based on the composition of household expenditure (see Estimated Inflation by Household Characteristics March 2023 - CSO - Central Statistics Office). This means that the pass-through of these labour costs may impact disproportionately on those at the lower end of the income distribution, including the beneficiaries of minimum wage increases, potentially eroding the value of these increases in real terms.

Figure 4.11. Contributions to CPI, Ireland, January 2020- January 2024



Source: CSO

Table 4.12 CPI Divisional Expenditure Weights 2017, 2019, 2021 and 2023

Consumer Price Index (CPI) expenditure weights by COICOP Division								
COICOP Headings	2017 CPI Exp Weight	2019 CPI Exp Weight	2021 CPI Exp Weight	2023 CPI Exp Weight	Weight Change from 2017 to 2023	% Weight Change from 2017 to 2023	Weight Change from 2021 to 2023	% Weight Change from 2021 to 2023
01 Food and non-alcoholic beverages	11.13	10.82	13.97	10.48	-0.65	-6%	-3.49	-25%
02 Alcoholic beverages and tobacco	5.45	5.79	6.14	5.41	-0.05	-1%	-0.73	-12%
03 Clothing and footwear	4.89	4.73	4.19	5.00	0.11	2%	0.81	19%
04 Housing, water, electricity, gas and other fuels	14.37	14.47	16.18	18.67	4.29	30%	2.48	15%
05 Furnishings, household equipment and routine household maintenance	4.95	4.86	5.82	5.44	0.49	10%	-0.37	-6%
06 Health	2.86	3.24	3.34	3.11	0.24	8%	-0.23	-7%
07 Transport	13.99	14.48	12.75	13.25	-0.74	-5%	0.50	4%
08 Communications	3.15	2.95	3.64	3.23	0.08	2%	-0.41	-11%
09 Recreation and culture	7.08	7.61	6.64	6.88	-0.21	-3%	0.24	4%
10 Education	2.04	1.84	1.74	1.51	-0.53	-26%	-0.22	-13%
11 Restaurants and hotels	17.47	18.38	12.99	15.78	-1.69	-10%	2.79	21%
12 Miscellaneous goods and services	12.54	10.76	12.55	11.18	-1.36	-11%	-1.37	-11%
Total Weights	**100.00**	**100.00**	**100.00**	**100.00**				

4.6 Additional considerations

Potential Implications for the Social Insurance Fund (SIF)

The forthcoming changes to working conditions examined in this paper may also have consequences for the SIF over time. In terms of PRSI, employers pay 8.8% Class A employer PRSI on weekly earnings up to €441, and 11.05% on weekly earnings over €441. As announced in Budget 2024, PRSI contribution rates are set to increase by 0.1% from October 2024. Since 2018 there have been a range of changes to the weekly earnings threshold of the higher PRSI rate which has increased from €376 in 2016 to €441 in 2023. See Table 4.9 below for full details on the changes to the earnings threshold and the PRSI rates.

In relation to Class A employee PRSI, the 'step-effect' for employees is manifested when their weekly earnings reach the threshold where they become liable for the 4% contribution charge. This threshold is currently €352 per week. To address this step-effect, a PRSI Credit mechanism was introduced in 2016 for employees insured at PRSI Class A whose earnings are between €352.01 and €424.00 per week. The PRSI Credit acts to taper the impact of the PRSI 4% charge by reducing the social insurance liability for incomes between €352.01 and €424 per week. The taper is one sixth of the difference between gross weekly earnings up to €424 and €352. A maximum credit of €12 applies. Since 2016, the credit and earnings thresholds have remained unchanged.

In 2016, the NMW was €9.15 per hour, with a full-time NMW worker earning €343 per week (assuming 37.5 hours worked per week). In 2023, at a NMW of €11.30, a full-time worker on the NMW earns €424. Therefore, increases in the NMW can expect to bring more employees within the scope for employee PRSI, assuming income bands are not adjusted in line with those increases. In April 2023, the Department of Social Protection published a paper examining *Pay Related Social Insurance Contribution Rate Options* (Department of Social Protection, 2023). The Department notes that since 2016, the practice of increasing the threshold up to which the lower employer PRSI rate applies has resulted in an estimated cumulative 'loss' to the SIF of €203 million.

Table 4.9: Changes to Employer PRSI Rates and Earnings Threshold, 2018 – 2024

	2018	2019	2020	2021	2022	2023	2024
Not exceeding €376 per week	8.60%						
Exceeding €376 per week	10.85%						
Not exceeding €386 per week		8.70%					
Exceeding €386 per week		10.95%					
Not exceeding €395 per week			8.80%				
Exceeding €395 per week			11.05%				
Not exceeding €398 per week				8.80%			
Exceeding €398 per week				11.05%			
Not exceeding €410 per week					8.80%		
Exceeding €410 per week					11.05%		
Not exceeding €441 per week						8.80%	
Exceeding €441 per week						11.05%	
Not exceeding €441 per week							8.90%
Exceeding €441 per week							11.15%

Source: Department of Social Protection (Advance Notices, Pay Related Social Insurance (PRSI) Contribution Rates and User Guides, 2017 – 2023)

Looking at the interaction of these changes over the coming years, Table 4.10 suggests that the transition to a Living Wage of €15 per hour would equate to an increase of 33% in the effective hourly rate of pay for an employee impacted by this change. From the perspective of an employer, however, the effective hourly cost would increase by closer to 36% when the changing rates of PRSI are considered (but excluding any pension-related costs). There is a potential risk that some employers may seek to structure their employees working patterns/hours – and thus, earnings – in order to keep more workers below the PRSI earnings threshold for the upper rate of contributions (i.e., to keep more workers at the 8.8% rate).

Table 4.10: Interaction of NMW and PRSI changes (2023, 2024 and 2026)

	%	2023	%	2024	%	2026		% change
Wage rate		€		€		€		
		11.30		**12.70**		**15.00**		**32.7**
Employee								
Gross earnings		423.75		476.25		562.50		
PRSI credit		0.04		0.00		0.00		
PRSI	4	16.95	4.1	19.53	4.35	24.47		
Net earnings		406.84		456.72		538.03		**32.3**
Effectively hourly pay		**10.85**		**12.18**		**14.35**		**32.3**
Employer								
Gross pay		423.75		476.25		562.50		
PRSI (lower)	8.8	37.29	8.9	-	9.15	-		
PRSI (upper)	11.05	-	11.15	53.10	11.4	64.13		
Gross cost		461.04		529.35		626.63		**35.9**
Effectively hourly cost		**12.29**		**14.12**		**16.71**		**35.9**

Source: Authors' calculations. Note: (i) Assumes the actual NMW for an adult worker for 2023 and 2024 (and an estimated Living Wage @ €15 per hour in 2026) (ii) Assumes a working week of 37.5 hours (iii) Does not include the impact of USC or Income Tax.

Potential Implications for the Exchequer

The forthcoming changes to working conditions examined in this paper may also have consequences for the Exchequer (whether in the form of reduced Corporation Tax receipts or higher public expenditure). In terms of Corporation Tax, this is levied at a rate of 12.5% of trading income and is calculated on the basis of profits over a given accounting period. Where a firm experiences a reduction in profitability – due in whole, or part, to the measures assessed here – this will feed-through to a lower Corporation Tax liability to the Exchequer. At the same time, however, employees will likely pay more in both direct and indirect tax as a result of having higher wages and so we cannot be definitive about the size or direction of the net impact on the Exchequer.

In terms of public expenditure, the roll-out of Parent's Benefit will result in an increase in spending as will any further measures to expand the Social Wage. Furthermore, where any cohort of public sector employees are paid at a rate lower than the Living Wage there will necessarily be an increase in payroll costs.

These changes may also impact the cost of, and eligibility for, certain social welfare payments, such as the Working Family Payment and Illness Benefit. The Working Family Payment is a weekly means-tested social welfare payment to support families whose income is below a threshold level, with income thresholds linked to the number of children in the household. The Working Family Payment can only be claimed by those in employment (and working at least 38 hours in a given two-week period). The payment made is equal to 60% of the difference between the average weekly family income and the weekly family income limit, which depends on family size (i.e., the weekly family income limit for a household with one child is €645, and for two children is €746 (as of January 2024)). Changes to the NMW – and spill-over effects for those earning more than the NMW – could have implications in terms of eligibility for the Working Family Payment, particularly for those whose family income is close to their respective income limit. Budget 2024 increased the income threshold for all family sizes by a flat €54. For the lowest income threshold, that which relates to a family with one child, this amounts to an increase of 9.1% (or less than the scheduled increase in the NMW in 2024).

The Sick Leave Act 2022 provides for statutory sick leave. It also provides for employers to operate sick leave schemes which are, on the whole, more favourable to the employee than what would be provided in terms of statutory sick leave. Among the factors specified in the Act that determine whether a scheme is more favourable than statutory sick leave are the period for which sick leave is payable, the amount of sick leave payable, and the number of days an employee is absent before sick leave is payable. The Act provides that these schemes are in replacement of statutory sick leave. The Department of Social Protection treats statutory sick leave employees, and those covered by the more favourable arrangements (i.e. who are not on statutory sick leave), the same in terms of the effect on their Illness Benefit entitlements (e.g. regarding the number of payable days on their claim).

Illness Benefit is not payable where the person is taking either (1) statutory sick leave or (2) their employer's scheme which is exempt from statutory sick leave because it offers better terms. Since 1 January 2024 the extension of Statutory Sick Pay to five days means that, for the first five days of an individual's first illness in 2024, Statutory Sick Pay can be claimed, with Illness Benefit paid from day six for any illness lasting more than five days. If all five days of Statutory Sick Pay have been claimed in a calendar year and an individual is sick at a later stage in that year, Illness Benefit can be claimed from day four of this illness (after the standard three waiting days). The expansion of Statutory Sick Pay beyond three days can be expected to reduce the cost of the Illness Benefit scheme, therefore reducing outlays from the Social Insurance Fund for those who would otherwise have claimed Illness Benefit after the initial three-day waiting period, but who now will instead receive Statutory Sick Pay from their employer.

Table 4.11: Government expenditure on Illness Benefit and Working Family Payment, 2016 - 2024

		2016	2017	2018	2019	2020	2021	2022	2023	2024 (est.)
IB	**Cost (€m)**	**597**	**599**	**623**	**606**	**593**	**571**	**614**	**689**	**704**
	Numbers	74,944	71,449	71,118	64,195	59,149	58,319	74,597		
WFP	**Costs (€m)**	**415**	**415**	**411**	**397**	**377**	**338**	**361**	**399**	**376**
	Numbers	184,975	187,019	176,172	172,575	156,691	147,099	149,017		

Source: Statistical Information On Social Welfare Services Annual Report 2022; Revised Estimates Volume for the Public Service, 2024

Exchequer Contributions: Auto-Enrolment Retirement Savings Scheme

The State top-up for this scheme will also have direct Exchequer implications. For every €3 contribution by an employee, the State will contribute €1. Therefore, when employee contribution rates are at 1.5% the State top-up will amount to 0.5%. As detailed in Chapter 8, this results in estimated expenditure of €128m (using 2022 employment figures and contribution rates). This will increase commensurately when contribution rates increase.

Part B:
Stakeholder Engagement

Chapter 5 – Case Studies

Chapter 6 – Stakeholder Workshops

5. Case studies

The proposed changes to working conditions outlined above will impact sectors as well as firms, including those within the same sectors, differently. A purely quantitative assessment focussing solely on an aggregate or average impact is insufficient to understand the nuances within individual firms and sectors, and the variability in cost impact across firms. For this reason, the authors met separately with representatives from three enterprises who are among the most impacted by forthcoming changes to working conditions. This provided valuable qualitative evidence of the impact that these measures will have across a range of sectors.

Among the issues discussed, the authors sought both quantitative and qualitative information, covering *inter alia*:

- Own estimates of the scale of the cost impact of these measures relative to baseline payroll and/or overall costs.
- The likely response of the enterprise to the implementation of these measures and the potential impact on profit margins (i.e., price inflation; absorption within existing overheads; use of operational efficiencies etc.).
- The anticipated impact of any pay relativities arising from movements toward the living wage.
- The impact, if any, that these measures are expected to have on business operations.
- The impact, if any, that these measures are expected to have on planned investments (i.e., planned growth, projected staffing numbers, etc.).

The findings from these meetings are detailed below in the form of individual case studies. In each case, the enterprise in question has been anonymised for confidentiality reasons. Table 5.1 below details the sector that each firm is operating in, the priority issue as identified by each firm, and whether each firm has an existing pension scheme and/or sick pay scheme (beyond the current statutory minimum).

Table 5.1 Overview of case studies

	Case Study 1	Case Study 2	Case Study 3	Case Study 4
Sector	Personal Services	Wholesale and Retail	Wholesale and Retail	Accommodation and Food Services
Priority issue	Living Wage	Living Wage	Living Wage	Living Wage
Existing pension scheme	Yes	Yes*	No	No
Existing sick pay scheme (>3 days)	No	No	No	No

Source: Based on DETE engagement with firms. Notes. * pension scheme exists for staff above an age threshold.

Case Study 1 – Personal Services Sector

This example refers to the case of a firm involved in the provision of personal services in a labour-intensive sector that is still recovering from the effects of the COVID-19 pandemic. This enterprise – an industry leader – employs across a range of roles and has a sizeable trainee cohort, representing approximately 25% of the staffing total. This cohort are in receipt of the statutory minimum wage. 60% of staff are involved in frontline service delivery (on a non-trainee basis), while the remainder of staff are involved in managerial or support roles. This balance of trainee and non-trainee staff ensures ongoing delivery of current and future service. Relative to the direct impact of an increase on pay for those earning the statutory minimum wage, this enterprise expects a more significant impact from the spillover effects of the upward pressure on pay for staff who are already earning above the statutory minimum wage in an effort to maintain pay relativities.

This enterprise emphasises that these changes to working conditions are occurring at a time when operating costs are high and rising. Internal targets for wage costs as a proportion of turnover (at 60%) are not being met and have not been met for some time (and are now at 70%). Faced with substantially greater wage-related costs, this enterprise anticipates a significant reduction in headcount over the next year. This firm indicates that very large price increases would be required to cushion the full impact of cost increases associated with forthcoming changes to working conditions, which would reduce customer visits and turnover. As a result, a more modest price increase is expected, which will cushion only a portion of the increase in wage costs. This enterprise expects that these greater costs will also impact on plans for future growth, in terms of its investment in people (as a trainer of staff in the sector).

Table 5.2. Estimated impact of forthcoming changes to working conditions – Case Study 1

Living Wage	2023 costs	Additional cost in 2024
Trainee staff	€7.1 million	€0.85 million (+12%)
Non-trainee staff (i.e. pay relativities)	€34.5 million	€2.1 million (+6%)
Total Living Wage	**€41.6 million**	**€2.9 million (+7%)**
Auto-enrolment retirement savings scheme	N/A	€0.41 million
Statutory Sick Pay	N/A	€0.13 million
Total all	**€41.6 million**	**€3.5 million**

Source: Based on DETE engagement with a firm in the personal services sector (NACE Code S).

Table 5.2 summarises the firm's own cost estimates associated with the movement towards the living wage, auto-enrolment retirement savings scheme and statutory sick pay in 2024. As shown, this enterprise anticipates an increase in wage costs associated with the movement towards the living wage in 2024 of 7%. This includes an increase of 12% for those earning the statutory minimum wage, and an increase of 6% for non-trainee staff (as a result of pay-related relativities). In addition to a total marginal cost of €2.9 million associated with the living wage, auto-enrolment retirement savings scheme and statutory sick pay (specifically the move from 3 to 5 days) are expected to cost €3.5 million in 2024. This enterprise already has a staff pension scheme in place.

Case Study 2 – Major Irish Retail Group (non-grocery)

This example refers to the case of a firm operating in the (non-grocery) retail trade sector, with both a physical and an online trade presence. This domestic enterprise is trading in a highly competitive industry, in which there is a sizeable multinational presence. This sector has been subject to significant change in the way in which consumers transact, with a significant portion of trade moving online and out of "bricks-and-mortar" establishments. The firm currently employs a relatively large number of part-time and younger staff, while approximately half of staff have been employed in the firm for less than two years.

This enterprise expects a substantial impact in the form of pay relativities in order to preserve the pay differential of managerial and non-retail roles versus entry level retail roles. The firm implements pay-scales for retail staff as agreed with trade unions, with the first point of scale corresponding to the national minimum wage. However, the increase towards the Living Wage implemented in January 2023, effectively collapsed the first four points of this scale, with staff who have less than four years of experience all earning the statutory minimum wage. The estimated living wage of €15 per hour by 2026 would effectively collapse the entirety of this pay-scale, with new entrants earning the same as those with more than 10 years of experience.

In terms of impact, the firm cautions that the embedded cost of pay increases in line with the Living Wage will lead to an increase in core inflation. The enterprise also believes that younger and less experienced workers may be priced out of retail sectors as a result of their higher cost. The enterprise believes that there is limited scope for price increases given the competitive industry in which they are operating. In response to higher wage costs, the firm anticipates a requirement to work with less people and less hours and is trialling optimisation processes that will help to reduce core hours. Higher wage costs are also expected to result in a divestment away from the more labour-intensive physical retail outlets, and toward a greater emphasis on online trade. The enterprise also states that there will likely be an acceleration towards customer self-service and automation.

Table 5.3. Estimated impact of forthcoming changes to working conditions – Case Study 2

Living Wage	2023 costs	Additional cost in 2024	Additional cost in 2025	Additional cost in 2026	Additional cost over 3-years
Weekly-paid staff	€8.7 million	€0.89 million (+10.2%)	€0.93 million (+9.6%)	€0.58 million (+5.5%)	€2.4 million (+27.5%)
Salaried staff					€1.5 million
Total Living Wage					**€3.9 million**

Source: Based on DETE engagement with an enterprise in the retail trade sector (NACE Code G). These estimates refer to hourly paid staff only.

Table 5.3 details the firm's own estimates of the cost impact of the living wage over 2024-2026. The firm has estimated costs based on a simulated pay agreement that is aligned with the move towards the living wage and maintains some level of differential based on experience and service. The living wage is expected to add 27.5% to payroll costs for weekly paid staff alone over 2023 to 2026. These estimates also take account of expected inflationary pressures and associated pay increases. For weekly paid staff, estimates of the additional cost were provided for each individual year, while for salaried staff, an overall estimate for the period 2024-2026 was provided. The firm does not anticipate a significant cost impact from either pension auto-enrolment or statutory sick pay, given staff demographics and the availability of pre-existing schemes. The firm raised some potential upsides associated with moves toward the living wage, including that higher pay will make it easier to attract a higher calibre of staff from (currently) higher paying firms elsewhere in the retail sector, while also making retail a more appealing option for those currently employed in other sectors with unsocial work environments.

Case Study 3 – Major Irish Retail Group (grocery)

This example refers to the case of a firm in the grocery retail sector. This firm is an industry leader and franchisor, that interacts or partners with an extensive number of local producers and small firms throughout the State. This firm is a significant source of employment, especially for rural communities. The firm also has a multinational presence. This firm emphasized that the retail sector accounts for a substantial proportion of employees earning the statutory minimum wage in the State, and that increases have caused problems with established pay-scales. This firm emphasizes that there is a desire to pay the living wage, but that there is an issue with scale at which the living wage is being implemented.

Overall, this firm presents the cost impact of changes to working conditions by focusing on the impact on the average cost base for a franchisee. The firm estimates that more than half of the increase in the cost base of this franchisee over 2019 to 2026 will be a result of changes in government policy, with additional cost pressures arising from commercial rates, energy, and insurance costs. As well as the direct costs associated with increases in the minimum wage, additional costs arise from pay relativities and broader market pay pressures, for example in respect of repairs, cleaning services, etc.

Table 5.4. Estimated impact of forthcoming changes to working conditions – Case Study 3

	2023 costs	Additional cost in 2024	Additional cost in 2025	Additional cost in 2026	Additional cost over 3-years
Total wages and Salaries	**€1.4 million**	**€118,065 (8.2%)**	**€90,740 (5.8%)**	**€106,517 (6.5%)**	**€315,322 (22.0%)**
Living Wage		€44,519 (3.1%)	€34,489 (2.2%)	€42,755 (2.6%)	**€121,763 (8.5%)**
Living Wage trickle-up effect		€35,755 (2.5%)	€33,626 (2.2%)	€36,839 (2.2%)	**€57,195 (4.0%)**
Auto-enrolment Retirement scheme		€14,357 (1.0%)			**€14,357 (1.0%)**
Sick pay		€4,182 (0.3%)	€4,517 (0.3%)	€7,086 (0.4%)	**€15,785 (1.1%)**
Wider payroll inflation		€19,252 (1.3%)	€18,107 (1.2%)	€19,836 (1.2%)	**€106,220 (7.4%)**

Source: Based on DETE engagement with an enterprise in the retail trade sector (NACE Code G). These estimates relate to the average cost of an individual franchisee.

Table 5.4 shows the breakdown of the expected impact of changes to working conditions on costs over 2023 to 2026. It is important to note that these estimates are inclusive of a level of efficiency savings. As shown, for this franchisee, the increase in the minimum wage is expected to add 5.6% to payroll costs in 2024 alone (including the impact of pay relativities). Over the three years from 2023 to 2026, payroll costs are estimated to grow by 22%, with 12.5% of this due to moves towards the living wage (including relativities), while changes in sick pay and the introduction of auto-enrolment retirement savings scheme are expected to add approximately 1% to payroll costs each.

This firm emphasises that this increase in costs will reduce profit margins with limited scope to adjust pricing. As a consequence, the firm anticipates less employees working in stores and an adverse impact on planned investments, particularly relating to the green transition. There is expected to be a significant deterioration in payroll-sales metric, as the pace of cost growth substantially outpaces expected sales growth. This trajectory will impact on the viability of low margin SMEs.

Case Study 4 – Accommodation and Food Services Sector

This example refers to the case of a small family-run hotel, that also offers a food and beverage service that accounts for a substantial proportion of revenues. This regional firm primarily services the local population, and employs a mix of salaried staff, minimum wage staff, and a cohort of hourly paid staff that are earning in excess of the minimum wage. This firm anticipates an impact from pay relativities, such that, approximately half of the increase in the minimum wage (in percentage terms), will also apply to those earning above this level. The non-salaried but earning above the minimum wage category is estimated to be more affected by pay relativities than salaried staff.

Table 5.5 details 2023 baseline costs, as well as the additional costs attached to forthcoming changes to working conditions over 2024 to 2026, as estimated by this firm. The firm has suggested that there is limited scope for price increases to accommodate these changes, given the locale in which this firm operates, and the community it serves – changes in patterns of consumer spending have already been noted by this firm, arising from the broader inflationary environment. The firm has also highlighted that these changes are coming at a time when costs have risen substantially, particularly in respect of food and energy prices, and the industry has yet to fully recover from the COVID-19 pandemic. The firm is currently undergoing an assessment of potential operational efficiencies.

Table 5.5. Estimated impact of forthcoming changes to working conditions – Case Study 4

Living Wage	2023 costs	Additional cost in 2024	Additional cost in 2025	Additional cost in 2026	Additional cost over 3-years
Living Wage (incl. pay relativities)					
Salaries	€239,044	€11,952 (5%)	€12,550 (5%)	€7,906 (3%)	€32,408 (13.6%)
Staff above minimum wage	€350,613	€21,037 (6%)	€26,015 (7%)	€11,930 (3%)	€58,982 (16.8%)
Staff on minimum wage	€350,584	€42,070 (12%)	€39,265 (10%)	€43,192 (10%)	€124,527 (35.5%)
Total Wage	**€940,241**	**€75,059 (8%)**	**€77,830 (11.7%)**	**€63,028 (6%)**	**€215,917 (23%)**
Auto-enrolment retirement savings		€6,250	€8,380	€336	€14,966
Statutory Sick Pay	€3,281	€1,608 (49%)	€17,128 (350%)	€9,399 (42%)	€28,135 (858%)
Other measures (i.e. parental leave/benefit; remote work; public holiday)	€26,645	€2,398 (9%)	€2,481 (8.5%)	€2,095 (6.65%)	€6,973 (26.2%)
Total all	**€970,167**	**€85,315 (8.8%)**	**€105,819 (10%)**	**€74,858 (6.5%)**	**€265,991 (27.4%)**

Source: Based on DETE engagement with a firm in the Accommodation and Food Services sector (NACE code I)

As shown in Table 5.5 this firm expects an increase in costs of 8.8% in 2024, and of 27.4% by 2026, relative to a 2023 baseline. Changes in the minimum wage are expected to increase payroll costs by 8% in 2024, and by 23% over 2024 to 2026. These increases in the minimum wage are also expected to impact, to some degree, those further up the chain (including salaried staff). Of the increase in wage costs next year, approximately 44% is estimated to arise from the impact of pay relativities (42% over 2024 to 2026). Overall, 81% of the estimated increase in costs by 2026, are expected to arise from changes to the minimum wage. Changes to Statutory Sick Pay are expected to add significantly to sick pay costs, but these represent a relatively small portion of costs overall.

It is worth noting that this firm indicated that, even absent movements towards the living wage, wage inflation of approximately 3% could be expected in order to retain staff, for all staff cohorts (i.e. those earning the minimum wage and above, including salaried staff). The firm indicates that the high cost environment at present, as well as market uncertainty, are adversely impacting on investment decisions, with a planned expansion involving the use of a currently unused site, currently delayed. Regarding work towards the green transition and decarbonisation, the firm has suggested that it has adopted a wait-and-see approach, following moves by others in industry. Finally, this firm presented information on wage costs as a percentage of total turnover. For 2023, this ratio is expected to be 40.4%, above the more typical range of 37%-39%. By 2026, this ratio is expected to reach 45%.

The authors also received written submissions from SMEs in the retail and leisure sectors. These are detailed in the Annex to this paper (see Annex D).

6. Stakeholder Workshops

6.1 Overview

A series of workshops were organised and these included participants representing both employers and employees (more details on the participants available in Annex E). Workshop participants were given an overview of the proposed report structure followed by a roundtable discussion on the six changes to working conditions included in the analysis – the Right to Request Remote Work, Statutory Sick Pay legislation, AE retirement savings scheme, Parent's Leave (and Benefits), additional Public Holiday and the transition to a Living Wage. The discussion focused on the impact on employer costs and any views on other impacts – such as pay relativities and any follow-on costs – as well as potential benefits for both employees and employers.

These discussions were beneficial and provided insights into the perspectives of all sides with regard to the impact of the improvements to working conditions assessed in this report. Although the majority of attendees – both employers and union representatives – welcomed the introduction of various changes, employer representatives expressed their concerns over the timing and speed at which the various measures are being introduced, what this could mean to businesses and in particular, the fact that such a suite of measures were being introduced in parallel. In the context of recent inflationary pressures, a lot of firms might face an extended period of increasing non-payroll related costs such as energy, packaging and stock.

In particular, the imminent increase to the NMW – as part of the broader transition to a Living Wage – was identified by most of the employer representatives as the most pressing concern. Some attendees were apprehensive about the extent of additional costs on certain sectors and businesses, such as firms which pay employees an hourly wage (as opposed to salary), regional SMEs and family businesses. Many employer representatives felt that the changes to working conditions would be disruptive to business operations and would not be easy for businesses to adjust to, specifically in the case of smaller, owner-operator type enterprises which could struggle with an absence of capacity to manage these changes.

In the case of many trade union representatives, however, there was a general sense that were, in fact, no major obstacles for employers when it comes to introducing these measures, particularly given that these had been signposted well in advance (see Figure 6.1 below) and were being phased in over an extended period. Moreover, this cohort emphasised the broader societal benefits of these changes. For example, in relation to the Statutory Sick Pay, the importance of this scheme was highlighted, given the duty of care employers have to all of their employees, to ensure that workers do not feel financially pressured to attend work when unwell which could be spread to their fellow employees.

Figure 6.1 Consultation dates for the AE retirement savings, Statutory Sick Pay, Remote Work and Living Wage

Measures	Consultation dates
AE Retirement Savings Scheme	From 22nd August 2018 to 4th November 2018
Statutory Sick Pay	From 16th November 2020 to 18th December 2020
The Right to Request Remote Work	From 1st April 2021 to 7th May 2021
The phase-in of the Living Wage	From 15th June 2022 to 17th August 2022

6.2 Workshop with Employers and Employer Representative Bodies

Box 6.2. Structured Roundtable Discussion – Employer Workshop

- What impact do you expect these changes to have on costs, in 2024 and by 2026, compared to baseline?
- Regarding the Living Wage specifically, do you anticipate any impact in terms of pay relativities and follow on costs?
- Could you give some insight into your planned response to these increased costs?
- Could you tell us about any impact these changes are expected to have on business operations? Do you expect there to be an impact on planned investments, in terms of the green transition, digitalisation, projected staff numbers, plans for future growth?
- What benefits do you anticipate these changes to working conditions will have on your sector?

Impact of Payroll Cost Changes

Employer representatives in attendance at the workshops believe there will be significant cost implications arising from the introduction of some of these measures. While they were welcoming of the general concept of a Living Wage and emphasised that they believe fair pay is of paramount importance, employer representatives were concerned about the impact, scale and pace of the transition to the Living Wage. In particular, concern was repeatedly expressed at the upcoming 12.4% increase of the NMW (to €12.70 per hour in January 2024) and onward to a projected wage of €15 per hour in 2026. Discussions indicated that some sectors would feel the impact of the move towards a Living Wage more acutely than other sectors, specifically those sectors that employ a high proportion of employees working at the NMW, such as the Retail and the Accommodation and Food Services sectors.

There was a view that the move to a Living Wage with the speed at which that the adjustment is being made and that this is being introduced in tandem with other changes was problematic. Some felt that this would threaten the viability of a large number of businesses and significantly reduce the incentive to run a business. There was also a high level of concern expressed by employer representatives on the effect of the increased NMW on those workers who are currently paid above this level and a sense that these spillover effects were not fully recognised. It was suggested that this could potentially lead to additional costs for businesses as employees on higher pay scales will be expecting the same increases. Some attendees suggested they will have to 're-engineer' their pay grades because employees will be expecting to earn more (for example, where workers have more work experience compared to an employee who is still in training).

In terms of the Statutory Sick Pay legislation, employer representatives were concerned that some employees might take advantage of the new legislation and treat it as a 'paid holiday'. In this context, some employers view the introduction of this new entitlement as an additional cost burden. Another concern identified was the issue of replacement costs where employees are not available due to illness. There is also considered to be a differential sectoral impact where certain jobs do not need to replace their staff whilst they are sick whereas other sectors cannot operate without the replacement of workers. In the latter case, it was argued that such employers are subject to a ‘double whammy’ impact where they must pay the wage of the replacement worker along with sick pay.

Similarly, AE savings scheme was also viewed as merely being an additional cost to the employer. Whilst many employer representatives broadly welcomed moves to improve retirement savings provision, there was significant concern around both the added payroll cost and the likely administrative burden arising. Concern was also expressed that some employees already perceive the change as being cost-free to the employee (with an expectation that their employer will further adjust gross pay levels to compensate). There was also a concern around the timing of this cost increase and that these costs would arise in parallel to the rise in other payroll costs. The introduction of an additional Public Holiday alongside the roll-out of Parent’s Leave and Parent’s Benefits received comparatively less attention in terms of feedback from participants. In terms of the additional Public Holiday, some attendees welcomed the policy while others suggested that it would inevitably lead to additional costs.

The Right to Request Remote Working was also considered to have a differential sectoral impact. Some participants expressed a concern that employees will see it as an ‘entitlement’ – even in those sectors where an employer could not reasonably accommodate such a request – and that there was a risk that this could encourage some workers to relocate outside of Ireland (to lower cost jurisdictions). It was suggested that this will have a negative impact on the retention and recruitment of workers, albeit that employee representatives took a different view and suggested that Ireland needs better working conditions in order to attract more international talent. They also suggested that this particular change will be beneficial for working parents and people with disabilities which could assist in improving labour supply.

Discussion on Likely Responses by Firms

When faced with increased operating costs, a given firm can either absorb the cost increase or transmit some proportion of same to their consumers. In such cases, a firm can accept a reduced profit margin, if feasible. Alternatively, they can proceed to increase their prices to mitigate the impact of increased costs or they can seek to make efficiency gains (and/or reduce overheads more generally). As part of this assessment, several employer representatives provided an insight into likely responses to the upcoming increase in operating costs and a variety of potential approaches were raised. It was emphasised by employer representatives that these upcoming cost increases could pose viability concerns for firms in certain sectors. Consequently, it was suggested that most firms would pursue a multi-faceted responses consisting of: (i) an attempt to partially absorb some of the expected cost increase, (ii) seeking to increase prices to a certain degree, and (iii) looking towards cost efficiencies across the business more widely. Indeed, a number of participants were clear that they saw no alternative than to reduce costs, potentially in the form of reduced staff numbers.

Attendees felt that the recent bout of inflation may limit some firms’ ability to further increase prices, with others suggesting that while they might have to increase their prices, they would have concerns that this would make them uncompetitive compared to the multi-national/international sector, ultimately, affecting their business growth. There were also concerns over the sustainability of business models and decreases in value for money as a result of the introduction of the working conditions outlined in the report.

In relation to planned investments – ranging from the green transition to digitalisation and plans for future growth – it was suggested that these additional costs will likely limit the ability of SMEs to invest sufficiently. Some participants were of the view that planned investments in areas such the green transition will not be a priority as a result of the additional costs assessed here (albeit that employee representatives were clear that there are no investments currently planned towards the green transition in certain sectors, regardless of any other cost changes). It was suggested, however, that investment in digitalisation will continue to reflect business and consumer needs, as necessary but some participants did express their concerns in relation to the negative impact on total capital investments and productivity as a result of the additional costs.

6.3 Workshop with Employee Representative Bodies

Box 6.3. Structured Roundtable Discussion – Employee Workshop

- What impact do you expect these changes to have on employees?
- Do you expect these changes to impact on employer costs? If so, to what degree?
- Regarding the living wage specifically, do you anticipate any impact in terms of pay relativities and follow on costs?
- Do you expect these changes may impact the labour market, in terms of the supply and demand?
- Do you expect there to be an impact on planned investments, in terms of the green transition, digitalisation, projected staff numbers, plans for future growth?
- What benefits do you anticipate these changes to working conditions will have on your sector?

Impact on Costs and Ireland as a Place to Work

In contrast to the views articulated by employers, trade union representatives suggested that the various measures, including the increase in wages, will have a positive impact for all sectors of the economy and will rectify inherent inequities that they have long identified. Specifically, it was argued that this will result in a higher disposable income for households which will, in turn, provide a benefit to the business sector via two distinct channels: (i) many businesses in sectors such as retail and hospitality will experience an increase in turnover; and (ii) many businesses will experience a reduction in staff turnover (with consequent savings in terms of the cost of hiring). Some participants did, however, feel that the transition to the Living Wage is insufficient and that workers will still face significant issues in the context of the increased cost of living. Some participants also emphasised the cost of housing with workers often feeling unable to relocate with their families when offered a new job. It was suggested that the Living Wage is a significant development in that employees should be able to afford to live close to their workplace – including those moving to Ireland to fill critical skills vacancies – rather than bearing the cost of a long commute.

In the case of the introduction of Statutory Sick Pay entitlements, employee representatives were concerned that the legislation was not progressive enough. In particular, there was a clear view that the 70% daily wage cap – and €110 daily threshold – does not match current wage levels and consequently, is not adequate to alleviate the financial incentive for those who are unwell to report to work. Specifically, the importance of ensuring staff working in childcare and hospital settings do not feel a need to report to work when unwell was emphasised. Such staff are considered to be more vulnerable to various illnesses than some other workers. This, in turn, could mean that they face financial challenges due to being out of work more often than those working in other sectors.

In terms of the roll-out of AE retirement savings, employee representatives view this as a welcome initiative but only as a step that will bring Ireland into line with our European trading partners and beyond this, as being reflective of Ireland's convergence with standard labour market conditions in Western Europe. As such, continued progress in this process is viewed as critical. Furthermore, employee representatives emphasised a long-term consideration of the benefits of this change: (i) that this will give rise to higher disposable income amongst retirees into the future and to the benefit of the local economy; and (ii) that this change will ultimately assist future retirees in meeting their housing costs (against the backdrop of an increasing proportion of households reliant on the private-rented sector (Slaymaker *et al* 2022)).

The changes introduced in the form of Parent's Leave and Parent's Benefit were viewed as vitally important. There was, however, some criticism that Ireland had been comparatively slow to introduce these entitlements for employees and that the current provision in Ireland was low compared to other European countries. Finally, there was a general agreement that the various improvements assessed here represented a balance package of change and one that was appropriate in terms of 'sharing the rewards' when the economy is doing well and that the business sector, on the whole, is more than capable of absorbing these additional costs.

6.4 Conclusion

These workshops were beneficial in providing important additional insights in relation to the impact of the improvements to working conditions assessed in this report. Most participants suggested that any impacts would be highly sector-specific, with further additional costs accruing to certain sectors and businesses (and for SMEs, in particular). From an employer perspective, there was an acute concern over the timing and the speed of the introduction of the measures. By contrast, there was also a strong suggestion from the trade union participants that these costs will ultimately be greater if these policies are not introduced as scheduled. The majority of employer representatives acknowledged the potential benefits associated with the introduction of various improvements to working conditions but expressed a concern around the additional costs to businesses with too many new changes being introduced within a very short period of time. On the other hand, employee representatives suggested that these new measures should be viewed as only a starting point and that other European countries are ahead of Ireland in terms of decent working conditions.

Part C:
Supporting Analysis

7. Transitioning to a Living Wage

7.1 Overview and rationale

In June 2022, when announcing publication of the LPC *Living Wage Report* (alongside the supporting NUI Maynooth report), then Tánaiste Leo Varadkar said:

"We're making a huge amount of improvements to workers' rights and terms and conditions this year and I'm really conscious that, although we have more people working than ever before in the history of the state, employers have had a turbulent and difficult couple of years and many are still just getting back on their feet. I'm also aware that we have a really uncertain period ahead. The most important workers' right is their right to work, to have a job. That is why I am proposing we phase this in and I will be listening to employers' views on these draft proposals." (DETE, June 2022).

One of the core improvements to workers' rights and terms and conditions mentioned here is the move to a national Living Wage. In November 2022, the Government decided to introduce this change. The Government announced that this will initially be set at 60% of hourly median wages, will be introduced over a four-year period through annual changes to the NMW and will be in place by 2026. This transition is intended to set the floor for pay rates across the economy rather than mandating a broader range of pay increases for all workers (but in practice, there will likely be spillover effects in certain cases).

Box 7. An Taoiseach Leo Varadkar outlines the decision for the transition to a Living Wage

In explaining this decision, the then Tánaiste Leo Varadkar said:

"Improving terms and conditions for workers must be one of the legacies of the pandemic. Across the country thousands of minimum wage workers, regardless of what job, sector or location they work in, will benefit from this increase. In addition, many more employees will feel the benefits of knock-on increases resulting from the changes.

"The introduction of a living wage is an important step we are taking towards eradicating low-wage employment for all workers and it will be implemented gradually over a four-year period. Once it is successfully in place, the Low Pay Commission will investigate if we can increase the living wage further to reach 66% of hourly median earnings.

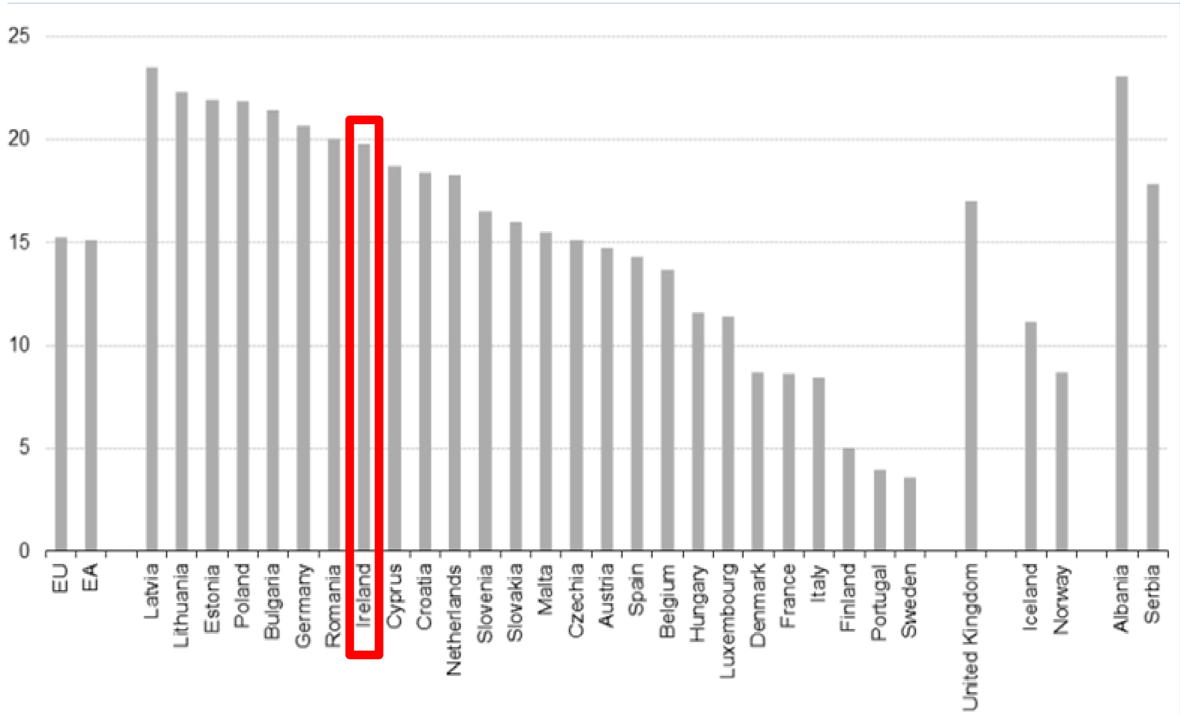
"Extensive research and consultation took place - including with employer and worker representative groups, unions and the public - in order to ensure we introduce the living wage in a way which will benefit workers whilst also being manageable for businesses. It's important to get the balance right." (DETE, November 2022).

International context – increasing the minimum wage to 60% of the median wage

The concept of moving towards a Living Wage is not unique to Ireland. The UK adopted a National Living Wage from 2016. Indeed, a recent change at an EU-level – the **EU Directive on Adequate Minimum Wages –** requires member states to use indicative reference values to assess the adequacy of minimum wages and suggests that 60% of median wages is an appropriate benchmark. Ireland does, however, already have one of the highest wage levels in the EU. As a result of other EU members states having proportionately higher social insurance contributions, total hourly labour costs in Ireland are €37.90, the 9th highest in the EU, but not far above the euro area average of €34.30 in 2022.

Ireland does also have a relatively large low wage sector. In 2018, Ireland has the 8th highest proportion of low-wage earners across 27 member states. Low-wage earners are defined as those employees earning two thirds or less of the national median gross hourly earnings. In Ireland, 19.8% of employees are low-wage earner compared to the euro area figure of 14.9%, while in Sweden fewer than 4% of employees are low wage earners (Eurostat, 2023). Additionally, although the proportion of employees earning the NMW will be greater in certain sectors, such as Accommodation and Retail as mentioned previously, the overall figure is 7.1% for workers who are earning the minimum wage or less in 2023 (LPC, 2023).

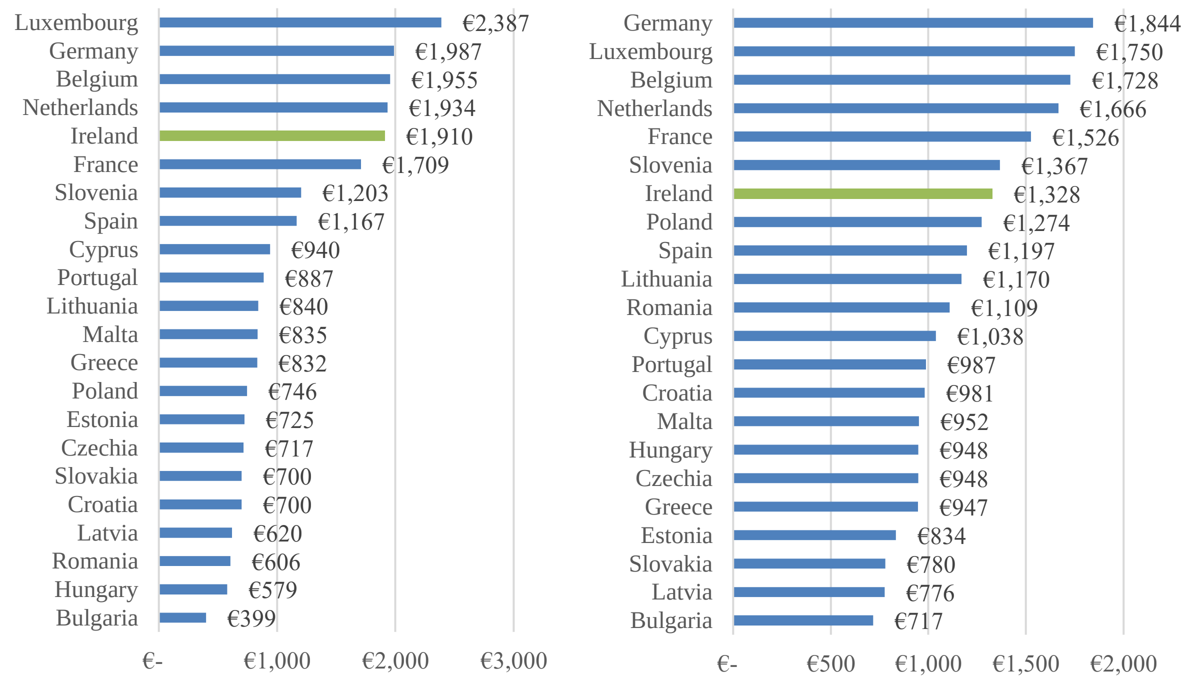
Figure 7.1: Proportion of low-wage earners in EU Member States and selected non-EU countries, as a %, in 2018.



Source: Eurostat (2023). Earnings statistics - Statistics Explained (europa.eu)

Currently, 22 out of the 27 EU member states have a National Minimum Wage. This is up from last year as Cyprus has recently introduced a national minimum wage. Denmark, Italy, Austria, Finland and Sweden continue to not have minimum wages, although, these countries do have centrally bargained minimum wages across a number of sectors. However, comparing minimum wages across countries is not without difficulties. Eurostat provide a breakdown of minimum wages per month[62] throughout the EU. These rates for January 2023 are displayed in Figure 7.2 below. In terms of gross monthly rates of the NMW, Ireland is in 5th position in the below list, down from second in January 2022. In terms of gross hourly rates, it is in 4th position down from third position in 2022 (Eurofound, 2023).When adjusted for purchasing power standards (PPS)[63] Ireland falls to 7th place, down from sixth in January 2022 as set out in the figure below.

Figure 7.2: Monthly National Minimum Wages in the European Union, January 2023 (Euro and PP Standard, respectively)



Source: Monthly minimum wages: Eurostat (2023). Monthly minimum wages - bi-annual data.

The introduction of the National Living Wage in the UK reduced inequality in the bottom half of the hourly pay distribution and within each nation and region in the UK. It also appeared to narrow the ethnicity and gender pay gaps. As might be expected, despite the overall positive picture, there was some opposition, principally from employer groups who question the costs and raised concerns about the sustainability of this approach. There are potential positive effects for employers. For instance, evidence from the UK suggests that workers on the National Living Wage are less likely to move jobs following its introduction (Low Pay Commission, 2022). Since 2020, the UK is now moving towards a new target to reach 66% median pay by 2024 and to lower the Living Wage age threshold to 21 over the same timeframe.

[62] Not all countries set their minimum wages in comparable monthly terms. Therefore, Eurostat harmonises these wage rates by making country specific adjustments. For Ireland hourly minimum wages are converted to monthly minimum wages as follows: (hourly rate x 39 hours x 52 weeks) / 12 months. These country specific adjustments are detailed here: https://ec.europa.eu/eurostat/cache/metadata/en/earn_minw_esms.htm

[63] The purchasing power standard is an artificial currency unit. Theoretically, one PPS can buy the same amount of goods and services in each country. However, price differences across borders mean that different amounts of national currency units are needed for the same goods and services depending on the country. PPS are derived by dividing any economic aggregate of a country in national currency by its respective purchasing power parities. Purchasing power parities are obtained by comparing price levels for a basket of comparable goods and services that are selected to be representative of consumption patterns in the various countries (this includes housing, based on actual and imputed rents. as well as childcare). The PPS calculation in Table 2.4 was performed by Eurostat.

7.2 Projected Living Wage

The Low Pay Commission's Report 2023 projects a living wage of €15 by 2026. Using CSO and Revenue data, the Commission estimated a median hourly wage for 2022 of €20.63, as set out in Figure 7.3B. Additionally, Figure 7.3A outlines wage per head forecasts which shows that on average the percentage is expected to increase until 2024 and then slightly decline in 2025.

Figure 7.3A: Wage per Head Forecasts, as a %

	2022	2023	2024	2025	2026
Department of Finance	2.5	4.4	4.6	4.5	4.3
Central Bank of Ireland	2.8	5.9	5.0	4.4	
European Commission	2.7	5.0	5.5	5.2	
Average	***2.6***	***5.1***	***5.0***	***4.7***	***4.3***

Source: CSO (2022) and Department of Finance (2023-2026); Central Bank of Ireland Quarterly Bulletin 3, September 2023; European Commission, European Economic Forecasts Autumn 2023. Note: Most figures refer to 'compensation per employee' excluding Department of Finance forecasts.

Figure 7.3B: Median Hourly Wage Forecasts

Forecast Median Hourly Wage					
	2022	**2023**	**2024**	**2025**	**2026**
Department of Finance		€21.78	€22.87	€23.97	€25.00
Central Bank of Ireland		€21.95	€23.09	€23.85	
European Commission		€21.78	€23.04		
Average	*€20.63*	*€21.84*	*€23.00*	*€23.91*	*€25.00*
Forecast 60% target					
	2022	**2023**	**2024**	**2025**	**2026**
Department of Finance	€12.38	€13.07	€13.72	€14.38	€15.00
Central Bank of Ireland	€12.38	€13.17	€13.85	€14.31	
European Commission	€12.38	€13.07	€13.83		
Average	*€12.38*	*€13.10*	*€13.80*	*€14.34*	*€15.00*

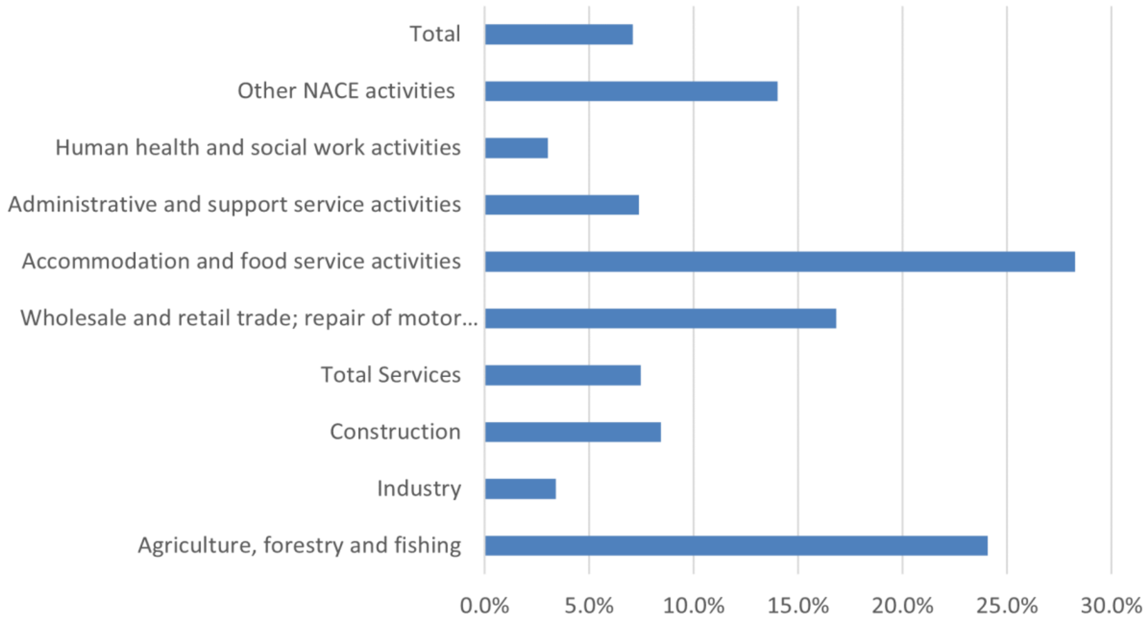
Source: Median wage: Labour Force Survey and Revenue data supplied by the CSO; Wage Forecasts: Department of Finance Stability Programme Update 2023, April 2023; Central Bank of Ireland Quarterly Bulletin 1, March 2023.

There are three available wage growth forecasts: the Department of Finance, the Central Bank of Ireland, and the European Commission. From these the LPC estimated the development of the median wage out to 2026. Using the only available forecast for 2026, they projected a Living Wage target of roughly €15.00 for that date. The NMW was €11.30 in 2023. Therefore, with the 80c increase to the minimum wage in 2023 being counted as the first of the four years to transition to a minimum wage with the remaining €3.70 to be made over the following three years. The next step was the move to €12.70 in January 2024.

7.3 Living Wage Coverage

The Labour Force Survey (LFS) estimates that there are currently 2,706,400 people employed in Ireland. Of these 2,338,500 are employees (CSO, 2024). A large proportion of those who will be impacted by the introduction of the Living Wage are those earning the NMW or less. In 2022, 7.1% of employees in Ireland were earning the NMW or less, which amounts to 148,100 employees. The highest proportion of these were in the Wholesale and Retail trade sector (16.8%, or 45,100 total, earn the minimum wage or less) and the Accommodation and Food services (28.3%, or 40,400 total earn the minimum wage or less). These sectors combined account for 58.0% of all employees earning the minimum wage or less. Figure 7.4 sets out the proportion of employees within each sector earning the minimum wage or less in 2022.

Figure 7.4: Percentage of Employees Earning Minimum Wage or Less by Sector, 2022



Source: Low Pay Commission

The composition of the labour force in 2026 is unknown, therefore, it is difficult to exactly estimate how many people will be covered by the NLW when it is fully introduced. However, the NUIM Report on the *Introduction of a Living Wage in Ireland* provides information on what the impact of introducing a Living Wage set at 60% of the minimum wage would have been in between 2017 and 2019. The NUIM Report estimates that the median wage in 2019 was €18.33. This implies a living wage, set at 60% of the median, of €11.00. This would have covered 15.27% of all employees. Between 2017-2019 a living wage set at 60% of the median wage would have covered between 13.49% and 15.27% of all employees, on average more than double the number the minimum wage covers.

Figure 7.5: The median, minimum and living wage, between 2017 and 2019, in Ireland

The median, minimum and living wage (2017-2019)			
	2017	**2018**	**2019**
Median Hourly Wage Rate	€16.74	€16.83	€18.33
National Minimum Wage	€9.25	€9.55	€9.80
60% of the Median Hourly Wage	€10.04	€10.10	€11.00
% of employees earning up to:			
National Minimum Wage	6.74%	7.46%	6.10%
60% of the Median Hourly Wage	14.70%	13.49%	15.27%

Source: NUIM Report (2022)

If the Living Wage in Q1 2023 also covered the same proportion as in 2017-2019, it would cover between 300,000 and 345,000 employees[64]. The percentages covered by a Living Wage set at 60% of the median wage will be higher or lower in different sectors. Statistical disclosure rules relating to cell sizes prevent the NUIM Report from showing all sectors, but many of the lowest-wage sectors could be reported for 2019. While 9.31% of employees in Manufacturing would be covered by the Living Wage, over 40% in the Accommodation/Food sector and 26% of employees in the Wholesale and Retail sector would be covered, as set out in Table 7.6.

Figure 7.6: Percentage of Employees Earning Up to LW60 (Living Wage at 60% of median hourly wage), Various Sectors, 2019, in Ireland

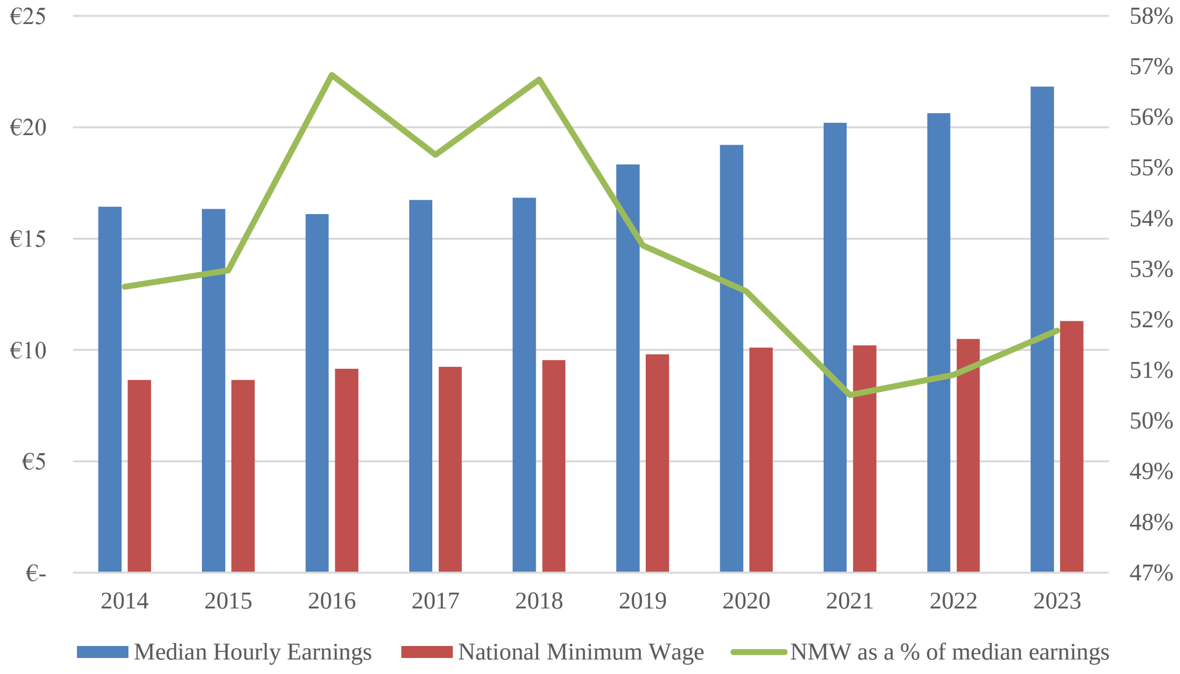
Sector	Percentage earning up to LW60
Manufacturing	9.31
Wholesale/Retail	25.72
Accommodation/Food	40.57
Admin/Services	29.02
Residential Care/Social Work	14.66
Overall	**15.27**

Source: NUIM Report (2022)

The large variation in the numbers of those on the minimum wage and under LW60 by sector will likely have implications for sectoral employer costs in moving to the living wage, which are now discussed in further detail. Another factor which will influence employer costs in moving to the Living Wage, is the degree to which 'the bite' (the minimum wage as a proportion of the median wage) differs from a level of 60% of the median. This has varied over the past decade with a 10-year average of 53%. This is set out in Figure 7.7A below. The minimum wage as a share of the median wage was lower during the 2021-2023 period than it has been in earlier years. This would indicate scope for minimum wage increases to restore a greater level of parity with the median, regardless of policy interventions related to the move to the Living Wage.

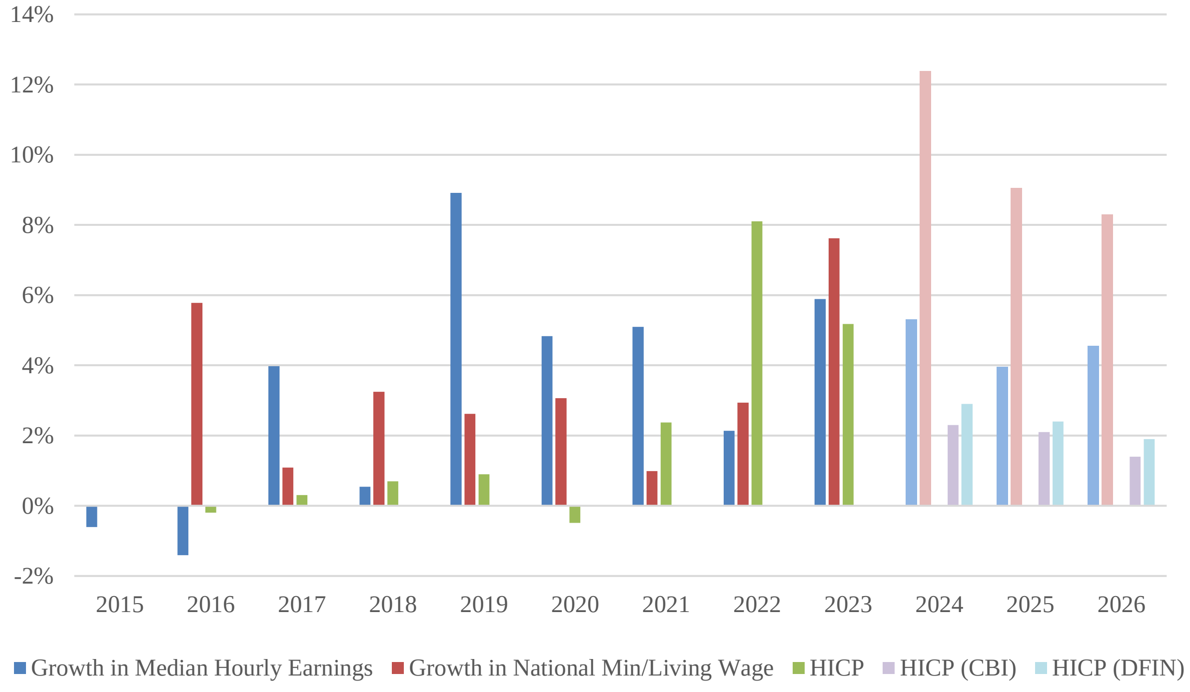
[64] 13.27% of 2,249,200 is 303,417 and 15.27% is 343,453.

Figure 7.7A: Minimum wage as a proportion of median hourly earnings, between 2014 and 2023, in Ireland



Source: LPC Annual Recommendations Report 2023, own calculations

Figure 7.7B: Annual Percentage Change in Median Hourly Earnings, Minimum Wage and HICP, 2014 to 2026 (forecast)



Source: LPC Annual Recommendations Report 2023, own calculations

Box 7.1: Sub-minimum youth rates

Currently, the minimum wage for those aged under 20 is less than the minimum wage for those aged 20 and over. The minimum wage for those aged 19 is 90% of the prevailing rate, for those aged 18 it is 80% and for those aged 17 and under it is 70%. In February 2022, the then Tánaiste and Minister for Enterprise, Trade and Employment requested the LPC to "*examine the issues around retaining or removing the youth rates and to make recommendations on the subject.*" The Commission's report (and recommendation) on youth rates is forthcoming.

The LPC previously considered this issue in 2017. They recommended introducing the current age-based system of the National Minimum Wage as removing youth rates:

- Would not offer any recognition of the difference between a young inexperienced worker and a more experienced colleague, which could lead to employers no longer seeing a value in hiring young people.
- Could provide an incentive for young people to leave education and take up employment, which could have a negative impact on their long-term prospects.
- Would not reflect the fact that such employees have a statutory restriction on their working hours and conditions.

The National Minimum Wage was increased by €1.40 from €11.30 per hour to €12.40 per hour on 1st January 2024. The increase of €1.40 cent was recommended by the Low Pay Commission and was agreed to by Government. This is on the back of an 80c increase in 2023, meaning a €2.20 increase over two years. These increases have also seen commensurate increases in the reduced rates that those aged under 20 are entitled to.

National Minimum Wage – rates with effect from 1 January 2024

	Minimum hourly rate of pay €	% of National Minimum Wage
National Minimum Wage (Aged 20 and over)	**12.70**	**100**
Aged 19	11.43	90
Aged 18	10.16	80
Aged under 18	8.89	70

The overall incidence of youth rate sub-minimum employment is very low in Ireland. Approximately 15,000 individuals (or just 0.7%), are on the youth rate. This is compared to 126,600 young people employed in Ireland as of Q3 2023.

The LPC asked the Economic and Social Research Institute to complete research into youth rates, under the terms of the Low Pay Commission / ESRI Research Partnership Agreement. This research was published in November 2023. The study examines the incidence and the characteristics of employees that are paid below the full national minimum wage rate. It provides evidence on the number of employees, and the type of employees, that could be impacted by any changes made to the sub-minimum youth rates.

The main findings of the research report include:

- While all employees aged 15–19 could legally be paid a sub-minimum youth rate, just under one-quarter are actually paid this rate. The remaining three-quarters earn a higher wage. Therefore, very few employees in Ireland are on a sub-minimum youth rate. Just one in every 140 employees earn a sub-minimum youth rate. This is equivalent to approximately 15,000 individuals.
- Just over half (55 per cent) of sub-minimum youth rate employees are women and 77 per cent work in either the accommodation, food or retail sectors.
- Approximately 80 per cent of sub-minimum youth-rate employees classify themselves as students.

The ESRI report concludes that, if subminimum rates are abolished, "*it is possible that some affected workers could see reductions in their hours or employment, and there is some international evidence to support this. Nonetheless, it is important to note that the international evidence on the adverse impact on employment or hours is often of a small magnitude. This, combined with the fact that the incidence of youth-rate employment is low to begin with, means that, overall, any employment effect is likely to be quite muted*."

The EU Directive on Adequate Minimum Wages is a particular focus of the LPC's discussions on the issue of sub-minimum youth rates. Article 6 of the directive reads that: *"where Member States allow for different rates of statutory minimum wage for specific groups of workers or for deductions that reduce the remuneration paid to a level below that of the relevant statutory minimum wage, they shall ensure that those variations and deductions respect the principles of non-discrimination and proportionality, the latter including the pursuit of a legitimate aim"*. This directive must be transposed by 15th November 2024.

7.4 Living Wage Costs

A central concern around the increase in the minimum wage to 60% of the median wage, is the impact of firm viability, employment and hour of work. As discussed earlier in the paper, a high inflation environment can lead to conflation between general increases to the minimum wage in order to maintain the real wage levels of employees and increases which are specifically driven by the move to the Living Wage (i.e. the setting of the minimum wage at 60% of the median wage). In a high inflation setting, and at a time of full employment, even if the ratio of the minimum wage to the median wage was to remain fixed over time, employers would still see increases in the minimum wage. As such, an estimate of the specific policy cost to firms from the introduction of the Living Wage might best be framed as the excess increase in the minimum wage, beyond what might otherwise have occurred.

The NUIM report utilises EU-SILC data to calculate "*the change in gross weekly wages that would result if the wages of workers below [60% of median hourly wage] were brought up to that threshold for 2019 without any changes in hours*." These results are reproduced in Figure 7.8. They find the overall increase in the wage bill across the economy would be around 1%. However, the increase would be significantly larger in sectors where there is a high level of low wage employment. They estimate the increase in the wage bill would be as high as 4.5% in the Accommodation and Food sector, 2.6% in the Construction sector and 20% in Administrative and Services sector. Conversely, sectors such as Finance, Information and Communication, Human Health are forecast to be impacted to a lesser extent.

Figure 7.8: Predicted Proportionate Change in Wage Bill Due to Introduction of Living Wage, by Sector

Sector	Change
Agriculture, Forestry, Fishing, Mining	5.5%
Manufacturing	0.6%
Utilities	*
Construction	2.6%
Wholesale and Retail	1.7%
Transport	1.3%
Accommodation and Food	4.5%
Information and Communications	0.2%
Finance	0%
Scientific	0.6%
Administration and Services	2.0%
Public Administration	0.4%
Education	0.3%
Human Health	0.2%
Residential Care and Social Work	1.4%
Arts	3.4%
Overall	**1.0%**

Source: NUIM Report (2022)

Even where sectors may see a larger relative increase in their wage bill arising from the Living Wage due to the having a relatively large share of workers earning less than 60% of the median wage, the direct impact of the Living Wage will likely still vary substantially depending on the individual costs, structure of businesses and the proportion of total costs that the labour component represents. The NUIM report explains that they do not have "*reliable information on the proportion of Total Costs that wage costs comprise, some indicative costs are available in O'Toole et al. (2021), which uses survey data on SMEs to estimate the impact of Covid on firms' costs and revenues*." O'Toole et al (2021) report states "*that wage costs comprise 35% of Total Costs on average for these small firms; they report a figure of 37% for Hotels and Restaurants*." From this it is possible to estimate that an increase in wage costs of 4.5% (as would have pertained in the Accommodation and Food sector) would have translated into an increase in Total Costs of approximately 1.7%.

Evidence from the CSO's Structural Business Survey points to significant variety in wage costs as a proportion of total business costs by sector. Wages and salaries only make up 6.9% of total costs in Industry, while representing 11.3% of Services and 16.5% of total costs in the Construction sector (CSO, 2022). There is a large difference between these figures and that reported above for small firms of 35%. The variety is such that even where there may be a large wage impact in a single sector, this may represent a relatively smaller shift in the total cost base, while other firms may be significantly impacted if wage costs increase to a significant degree.

The Bite and General Wage Inflation

The NUIM (2022) analysis was undertaken using data from a period of relatively low wage inflation. As stated earlier in the report, regarding changes in the minimum wage, it is important to differentiate the impact of the introduction of the Living Wage – where the NMW will move to a level of 60% of the median wage – from broader changes in minimum rates of pay which can be expected to arise from inflationary pressures. In a high inflation environment, and at a time of full employment, upward wage pressures can be expected, independent of policy intervention. For this reason, an appropriate baseline against which to assess the impact of movements towards the Living Wage should differentiate between the transition to a Living Wage – as outlined by the LPC – and a possible counterfactual.

The data used for assessing the impact of a transition to a Living Wage in the NUIM (2022) analysis was at a point in time (2018-2019) where the minimum wage as a proportion of the median wage – referred to as 'the bite' – was closer (56.6%) than it is in 2023/2024 (51.8%). This means that there has been slower growth in the minimum wage, than the median wage. All else equal, it can be expected that there would be some level of catch-up in the minimum wage, without the introduction of Living Wage policy. Over the period from 2014 to 2023 the minimum wage averaged 53% of the median wage over 2024-2026. Taking this as the representation of what the minimum wage would be with no policy change, infers that the additional 7 percentage points from 53% to 60% represents the increase in wages/employee over and above policy as normal. The LPC projects that the median wage will be €25 by 2026, as set out in the table below. The €15 Living Wage, at 60% of the median was established on this projected median wage.

Figure 7.9 LPC projections for the median wage by 2026

	2026
Median Wage	€25
60% of Median Wage	€15
53% of Median Wage	€13.25

Source: LPC annual report

Using the long-term average 'bite' of 53% gives a sense of where the minimum wage might be in 2026, if there was no additional policy intervention arising from the implementation of the Living Wage – this projects a figure of €13.25 an hour. When compared to the €11.30 minimum wage in place in 2023 this allows for an approximation of the share of the increase in the minimum wage which is arising from general wage and price inflation, and the share attributed to the Living Wage. This is set out below in Table 7.10. Based on this, it can be estimated that of the total 32.7% increase to the minimum wage over the period 2024-2026, approximately 15.5% is associated with the introduction of the Living Wage, and 17.3% of the increase can be attributed to general wage inflation. While this provides insight into the movement of the minimum wage, it does not explain the impact of increases to the minimum wage further up the wage distribution.

Figure 7.10 Projections for the minimum wage by 2026

		Share of 2023 Minimum Wage
Minimum Wage 2023	€11.30	100%
General Wage Inflation	*€1.95*	*17.26%*
Living Wage Related Increase	*€1.75*	*15.49%*
Minimum Wage 2026	**€15**	**132.74%**

Source: Own calculations

Wage Relativities

The above estimates of costs to firms arising from the implementation of the Living Wage only set out the direct cost of increases to wages for those under 60% of the lower wage. However, the introduction of the Living Wage will likely have implications for those on higher earnings too (i.e., spillover effects). An employee who was on €15 an hour up to the introduction of the Living Wage will see other employees who had previously been on less than €15, now earning the same as them. This will lead to pressure on firms to increase wages for those close to the Living Wage, an effect that will likely continue up the earnings distribution, in order to maintain the relative difference in wage rates prior to the change in the minimum wage. This effect will mean that wage impacts will likely be higher than the direct impact established in the NUIM (2022) analysis, of a 1% increase in total wage costs across all sectors, and that specific sectoral impacts could higher. Engagement with employers has emphasised this element as an area of concern. If those who are just above LW60 seek similar increases out to 2026, then there may be impact further up the wage distribution such that the overall impact of the implementation of a Living Wage could see wage inflation proportionately in line with the move to a Living Wage (which represents a 33% increase in hourly wages compared to the minimum wage in 2023).

The phenomenon of "spillover effects", whereby increases in minimum wages lead to increases in wages higher up the wage distribution, have been well studied. The concerns from firms contrast with the findings from the literature in the area. It has generally been found that spillover effects are relatively moderate and they only affect the lower end of the wage distribution. However, the combined effect of a minimum wage increase on minimum wage workers directly and the spillover effects on workers earning above the minimum wage are generally larger than the direct effect on minimum wage workers considered in isolation. It should be noted that Dickens and Manning (2004a, 2004b) found no spillover effects associated with minimum wage increases in the UK.

The *OECD Employment Outlook 2023* also examines the impact of increases to the minimum wage further up the wage distribution. In their analysis the OECD simulates the impact of a 1% increase in the minimum wage on aggregate wages, accounting separately for direct (affecting workers paid at or below the minimum wage) and spillover (affecting workers paid above the minimum wage) effects. The share of employees paid at or below the minimum wage in each case, refers to a base year, specifically, 2018 for France and Germany, 2021/2022 for the UK, and 2022 for the US and Ireland. Based upon these discrete country-specific studies, the OECD presented a detailed consideration of the impact of such changes over time (and how these can differ by country). Although the OECD analysis did not include Ireland, this report derives estimates based on the proportion of employees paid at or below the minimum wage in Ireland relative to others (i.e., at 7.1%, this places Ireland at the mid-point between Germany and the UK). This implies that, in Ireland, assuming the share of employees paid at or below the minimum wage is 7.1% (as in 2022), a 1% increase in the minimum wage would lead to a 0.08% increase in the total wage bill (0.04% arising from direct effects and a further 0.04% associated with spillover effects). The authors do note, however, that spillover effects may be stronger in a high inflation environment and where minimum wage increases are larger and more frequent.

It is critical to note, that the impact of an increase in the minimum wage on aggregate wages will depend on both, the proportion of staff earning the minimum wage, and the distribution of earnings more generally. For instance in France, approximately 14% of workers earned the minimum wage in 2022 and the wage distribution is relatively compressed while in the United States only around 6% of workers earned the minimum wage in 2022 and the wage distribution is less compressed (OECD, 2023:52).

Figure 7.11 Direct, Spillover and Overall effects from a 1% increase in the minimum wage on aggregate wage levels

	Proportion of employees on the minimum wage	Direct effect	Spillover effect	Overall effect
USA	6% (2022)	0.02%	0.01%	0.03%
Germany	8.4% (2018)	0.04%	0.01%	0.05%
UK	5.9% (2021/2022)	0.03%	0.07%	0.10%
France	11% (2018)	0.06%	0.14%	0.19%
Ireland (est.)	**7.1% (2022)**	**0.04%**	**0.04%**	**0.08%**

Source: DETE based on analysis by the OECD (Employment Outlook 2023). Results are based on the European Union Structure of Earnings Survey (EU-SES) scientific-use files (SUFs) for France and Germany, the UK Labour Force Survey for the UK, and the Current Population Survey (CPS) for the US. Ireland estimate derived based on the proportion of employees earning the minimum wage relative to other countries.

Having isolated the Living Wage policy related impact within the projected increases to the minimum wage out to 2026 above (estimated at 15.5%), the OECD analysis in turn allows for an estimate of the direct and indirect/spillover effect from a 1% (and 15.5%) increase to the minimum wage. A 15.5% increase to the minimum wage, is estimated to lead to a 0.62% direct increase to the wage bill, and a 0.62% indirect or spillover effect on the wage bill, or a total 1.24% rise in the overall economy's wage bill. This estimate utilises OECD results, but also falls quite close to the impact which was established in the NUIM (2022) study.

Firm Response

In the UK, research indicates that the primary employer response to the introduction of the NLW was to absorb the costs and accept lower profits but that after this, price increases were a common response for many firms. Commissioned research found that a 10% increase in the minimum wage had the potential to increase prices of goods and services by up to 1.1%. However, as this only affected a small subset of items and regions, the NLW had a negligible impact on overall measures of inflation. The review further noted that the way employers responded to the first phase of the NLW may not be as viable post-Covid as there may be less scope to accept further cost increases. Small firms were found to be far more indebted post-Covid, which suggested they may be less willing to allow their profits to reduce further. It was suggested that these firms may be risk averse about hiring and expansion which further reduces their capacity to invest (Low Pay Commission, 2022).

Furthermore, the NUIM (2022) report found, based on international evidence, that '*there is some evidence a statutory wage floor set at 60% of the hourly median wage of all workers could be implemented without substantial effects on employment'*. The report further states that '*a living wage set around 60% of the median for all workers represents a reasonable balance between moving all workers towards an acceptable standard of living while at the same time being supported by a body of evidence as to its likely effect on employment'*. The UK review of their NLW found no conclusive evidence of a negative impact on employment or hours. In general, the review found a mix of both positive and negative effects on employment, but the effects were small and only affected certain groups of workers at certain times. The evidence suggests that the introduction of the NLW did not affect aggregate employment, or if it did the effects were very small.

Further externally commissioned research and internal analysis corroborates this, finding either no or limited evidence that the NLW reduced aggregate employment. It is also consistent with feedback from employers in the UK of whom only a small number made redundancies or reduced hiring because of the NLW. Ultimately, while firms may absorb initial cost impacts of the Living Wage (and associated relativities), it would be expected over the medium term that they would maintain margins, and that cost price inflation will result. While this may present less of an issue in the non-traded sector, sectors which face international competition (which in an increasingly online world can include the retail sector) may see cost competitiveness impacts.

Cost to Exchequer

The cost to the Exchequer of this proposal includes the direct implications for the public sector pay bill as well as additional resources for data collection and monitoring. In terms of the public service pay bill, the Living Wage Technical Group previously suggested a living wage of €12.90 for 2021/2022 (which is very close to the 60 per cent estimated living wage threshold of €13.10 in 2023). Detailed wage distribution data is available in relation to the civil service, which allows for an assessment of the number of staff on salary points below this level. Based on the civil service 35-hour standard net working week, an hourly pay rate of €12.90 equates to an annual salary of €23,559. It is estimated that approximately 0.1% of staff (full-time equivalent) in the civil service are on salary points less than this figure. Those currently on annual salary of less than €23,559 may be receiving remuneration in excess of the suggested living wage through additional premium payments in respect of shift work or atypical hours. In addition, the relevant salary scales progress incrementally to meet the suggested living wage of €12.90 and above. These staff will also benefit from the increases set out under the extended Building Momentum Agreement, which is weighted towards public servants at lower pay rates. On the assumption that the proportion of staff at these pay levels is similar across the wider public service, this suggests that the proposal will not have a significant impact on the public service pay bill.

Any additional resources which may be required by the CSO to produce hourly median wage data, will be subject to assessment and consideration by Department of Public Expenditure and Reform (DPER) as part of its annual estimates process. An alternative data capture process could involve expanding Revenue systems to capture 'hours worked' alongside existing payroll reporting by employers. This would also be subject to assessment and consideration by DPER as part of its annual estimates process. In the case of this option, however, other non-Exchequer financial costs also arise due to the required systems developments for both payroll software developers and employers.

7.5 Potential Benefits

The introduction of the Living Wage is ultimately aimed at household income inequality and to reduce poverty, all of which will have a benefit to society. The NUIM (2022) report compares measures of wage inequality in 2019 with what they would have been if the minimum wage had been set at 60% of the median wage. The standard deviation of the hourly wage, a measure of wage dispersion, would decline from 0.56 to 0.52. The 90-10 ratio, which expresses the wage of high paid workers (those in the top decile of the distribution) relative to those of low paid workers (those in the bottom decile), would decline from 1.58 to 1.52 while the effect on the male to female wage gap they describe as modest.

Figure 7.12 Inequality/Poverty Measure

Inequality/Poverty Measure	Actual 2019	If minimum wage was increased to 60% of the median hourly wage
Measures of Wage Inequality		
Standard Deviation of Hourly Wage	0.56	0.52
90-10 Ratio	1.58	1.52
Male/Female	0.050	0.052
Measures of Household Income Inequality and Poverty		
90-10 Ratio	3.29	3.29
Risk of Poverty (%)	12.78	12.07
Risk of In-Work Poverty (%)	3.91	3.10

Source: NUIM Report (2022)

When looking at the measures of household income inequality and household poverty, the effects are unsurprisingly smaller, since household inequality is driven by exclusion from the labour market due to age, health or unemployment. There is no impact on the household income 90-10 ratio. The overall percentage in poverty falls from 12.78% to 12.07%. In particular, there is projected to be a strong impact on reducing in-work poverty through the introduction of the Living Wage, with the risk of in-work poverty expected to drop from 3.91% to 3.1% of households. A rising wage level will also provide greater spending power to lower-income households and therefore will provide a boost to consumption which will act to marginally offset increased costs.

7.6 Other Considerations on Living Wage

There may be concerns that the median wage in Ireland is at least somewhat influenced by a select number of global high-wage, high-productivity sectors including Pharmaceuticals and ICT (such that it guarantees a certain proportion of the workforce are over the 50^{th} percentile on the distribution). It remains to be seen whether imposing a structure on the wage distribution – such that lower wage sectors are to a degree anchored to higher wage sectors will lead to wage stability over the longer term. If the introduction of the Living Wage at a level of 60% of the median wage leads to a round of broader wage inflation, then this will see those at LW60 once again slip below this mark, which may precipitate a further cycle of adjustments and further general wage inflation. The question remains as to whether an equilibrium might exist where all wages would lie above 60% of the median wage – particularly in the case of the Irish economy which is characterised by a select number of outlier sectors with higher earnings.

Ultimately, it might be expected that firms will reasonably seek to maintain profit margins, and so will adjust their pricing upwards in order to maintain margins. This would suggest that there will ultimately be competitiveness implications from the introduction of the Living Wage – where firms are facing an increased cost base and which results in higher prices. The analysis above would also suggest that this impact may differ by sector, such that sectors with a higher proportion of lower paid workers would see increased level of wage increases when compared to those sectors with higher pay. If firms in turn respond with increased prices this will also contribute to different levels of product inflation by sector. The analysis would suggest that there will be higher inflation in the Accommodation and Food Sector, Construction, and Agriculture. The degree to which this impacts on overall CPI will depend on the weightings attributed to each product.

8. Auto-Enrolment Retirement Savings

8.1 Overview and rationale

The Government has committed to implementing a system of automatic enrolment (AE) into retirement savings for employees from 2024. The system has been designed following extensive public consultation and the Department of Social Protection is working with parliamentary draft-persons to prepare a Bill that will provide the legislative underpinning of the AE system.

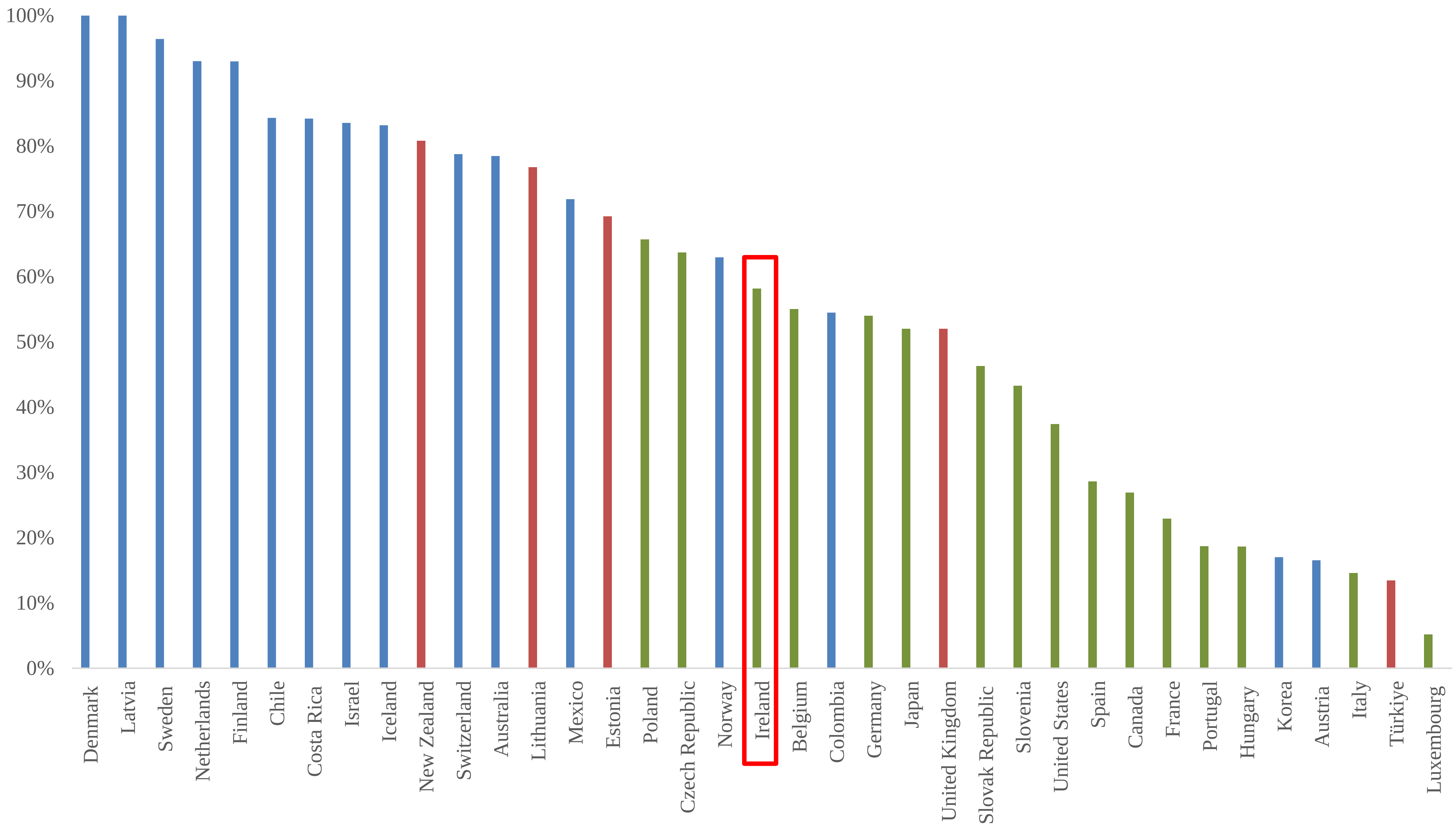
Introducing auto-enrolment has been a long-standing commitment, most recently set out in the Programme for Government: *Our Shared Future and the Roadmap for Pensions Reform 2018-2023*. According to the Roadmap, introduction of AE will address the low level of pension coverage among Ireland's private sector workers and the potential large drop in living standards that could be experienced at retirement[65] . The most recent estimates of pension coverage among private sector workers is 35% (Department of Social Protection, 2023).

8.2 How Ireland Compares

Figure 8.1. shows coverage rates among OECD countries, categorised by the type of system prevailing in the country, while Figure 8.2 sets out the net pension replacement rate compared to gross earnings for the average worker compiled by the OECD. For males, Ireland ranks 46th out of 53 countries with a replacement rate of 39.9% compared to a median rate of 63.3%. For females, Ireland ranks 42nd with a 39.9% replacement rate compared to a median rate of 63.2%.

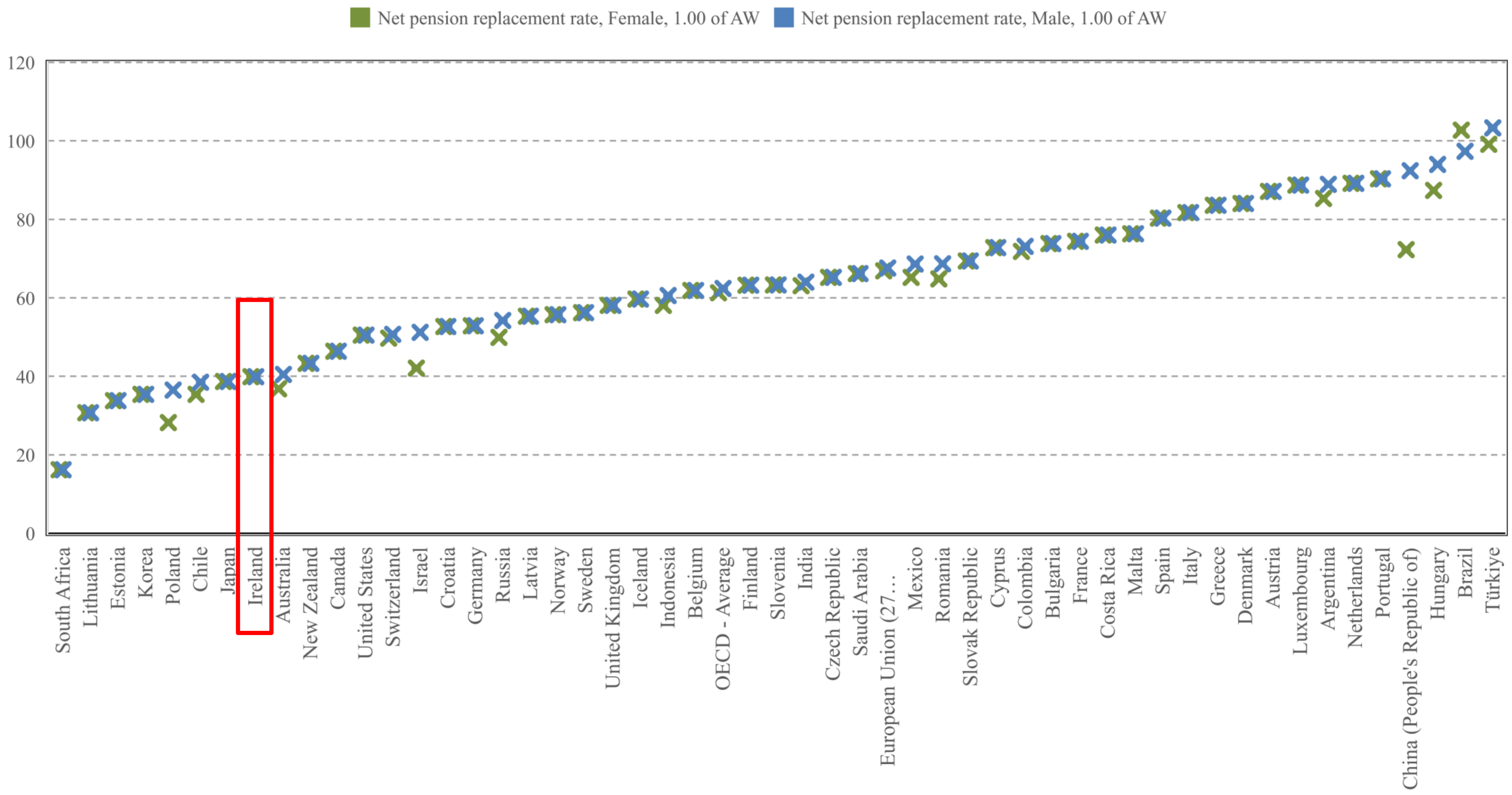
[65] Pension coverage is defined as any pension product currently being funded by workers. It excludes pension products available to a worker on retirement but no longer being actively funded.

Figure 8.1: Coverage rate for occupational pension schemes, by system type, 2021



Source: OECD

Figure 8.2: Net replacement rate of pensions compared to gross earnings for the average worker, by gender.



Source: OECD.

AE design principles

The current design principles for auto-enrolment will mean that an employee (aged 23 to 60) earning at least €20,000[66] annually will be enrolled into the new retirement saving system, whereby they and their employer will pay a set rate of earnings into the fund (Department of Social Protection, 2022). When the scheme is fully implemented, employees and employers will contribute 6% (of gross earnings) each, while the State will match one-third of the employee's contribution. Employers and the State will not make contributions on annual earnings above €80,000. Employees would only be auto-enrolled in respect of employments with which they do not have a pension arrangement meeting prescribed minimum standards; though such standards are not expected to be instituted for a number of years. The phasing in of AE, as outlined in Figure 8.3 will mitigate against potential short-/medium-term negative consequences associated with implementation.

Figure 8.3: Phases of auto-enrolment

<table>
<tr><th>Years</th><th>Employee contribution</th><th>Employer contribution</th><th>State contribution</th><th>Exemptions to auto-enrolment</th></tr>
<tr><td>1-3</td><td>1.5% of gross earnings</td><td>1.5% of gross earnings up to €80,000</td><td rowspan="4">1/3 of employer contribution</td><td rowspan="2">An occupational pension or PRSA will exempt an employee from auto-enrolment in relation to that employment.</td></tr>
<tr><td>4-6</td><td>3% of gross earnings</td><td>3% of gross earnings up to €80,000</td></tr>
<tr><td>7-9</td><td>4.5% of gross earnings</td><td>4.5% of gross earnings up to €80,000</td><td rowspan="2">The point at which minimum standards for exempting-pension arrangements will be prescribed is not yet known. They could be prescribed once contributions reach 4.5% but this is not agreed.</td></tr>
<tr><td>10 onwards</td><td>6% of gross earnings</td><td>6% of gross earnings up to €80,000</td></tr>
</table>

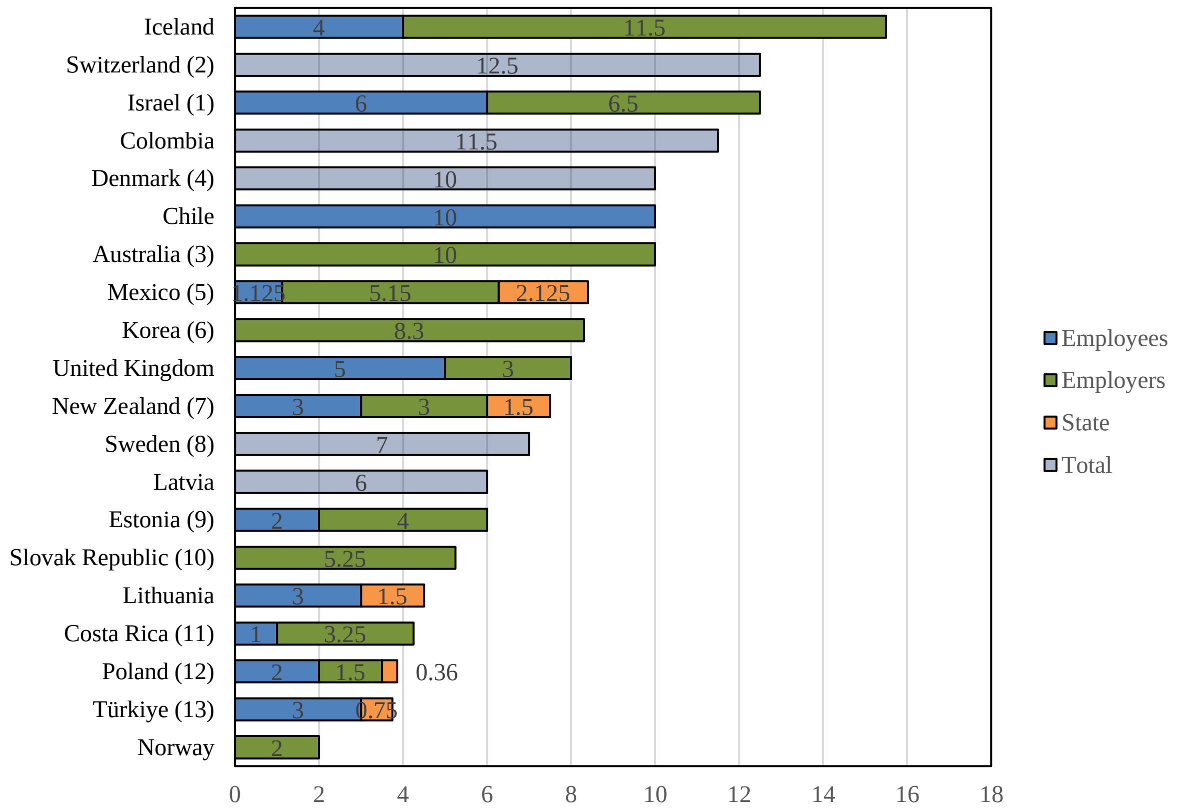
Source: Department of Social Protection.

Recent data compiled by the OECD give some guidance on how Ireland would compare with other countries on the levels of contributions to the automatic enrolment system. Minimum (or mandatory) contribution rates for employees, employers, etc. are depicted in Figure 8.4 below. A combined contribution of 12% between employees and employers plus 2% from the State has been chosen to ensure an adequate standard of living in retirement. An analysis by Revenue (2022), of pension contributions deducted from employee payrolls, shows that average contributions as a percentage of gross pay ranged between 3% and 7% depending on income, though 23% of the €3 billion in pension contributions in 2022 were additional voluntary contributions (unmatched by employers). An internal DSP analysis found that across sectors the combined contribution level in 2022 ranged between 5 and 15%, with contributions from only one sector meeting or exceeding the 14% level AE will land at (shown in

[66] Employees with multiple employments will be auto-enrolled if they earn €20,000 annually across those multiple employments

Figure 8.5). The figures shown in Figure 8.5 depict the scale of difference the AE system will represent to the status quo, with combined contributions in most sectors at inadequate levels in respect of a minority of employees.

Figure 8.4: Minimum or mandatory contribution rates (for an average earner) in mandatory and auto-enrolment plans (unless specified otherwise), 2021 (or latest year available)[67]



Source: OECD's Pensions Markets in Focus 2022 via ISSA country profiles and other sources

[67] The category "Total" shows the cases where the contribution rates cannot be split precisely between employers, employees (and state). (1) Employers also contribute an additional 6% to provide severance insurance which, if used, reduces the pension at retirement. (2) Members get contribution credits that are expressed as a percentage of a so-called coordinated salary. Contribution credits vary across age groups, from 7% between 25 and 34 years old up to 18% beyond 55 years old. The chart shows an average of the age-specific rates (7% at ages 25-34, 10% at 35-44, 15% at 45-54 and 18% at 55-64). The employer must pay at least half of these credits, the employee the remainder. Contribution rates may differ from the minimum contribution credits. (3) The superannuation guarantee rate rose from 9.5% to 10% on 1 July 2021. (4) The contribution rate is a minimum for quasi-mandatory occupational plans. Contribution rates are set by the collective agreement and are similar for all workers under the agreement. Contribution rates range between 10% and 18%. (5) The contribution rates are shown for private-sector workers. The contribution rates are higher for public-sector workers. The government supplements the total contribution with a flat-rate amount (the social quota - cuota social). Its amount depends on the salary level for private-sector employees. The state contribution here includes the social quota of a private-sector worker earning 2.2 times the minimum wage at end-2021. (6) The contribution rate is the minimum employer contribution to occupational defined contribution plans. (7) The minimum contribution rate is 6% equally split between the employer and employee from 1 April 2013. Members can however select a higher personal contribution rate of 4%, 6%, 8% or 10% of salary. The government contributes 50 cents for every dollar of member contribution, up to NZD 521.43 annually. (8) The contribution to the pension premium system amounts to 2.5% of the pensionable income. Contribution rates to quasi-mandatory occupational plans vary according to the income level: 4.5% for earnings under 7.5 income base amount (IBA) and 30% for earnings over 7.5 IBA for ITP1 and SAF-LO. Contribution rates are shown here for an average earner who has earnings below 7.5 IBA. (9) Employer contributions to the second pillar were suspended from 1 July 2020 to 31 August 2021. Upon application, members could also suspend their 2% contributions from 1 December 2020 until 31 August 2021. From 2021, participation in the second pension pillar is voluntary. New labour markets entrants are automatically enrolled in the second pension pillar but can opt out. (10) Data refer to voluntary employment-related plans. The contribution rate was set to increase (from 4%) gradually by 0.25 pp each year from January 2017, reaching 5.25% in 2021. (11) The contribution rate is for the ROP, a mandatory supplementary pension scheme in Costa Rica. (12) Data show the minimum contribution rates to employee capital plans (PPK). The employee's minimum contribution could be lowered to 0.5% for employees with less than 120% minimum income. The welcome contribution of the state is not included here. (13) Data do not include the one-time contribution for those who do not opt out within the first two months, nor the additional government contribution if the individual chooses a minimum 10-year annuity at retirement. Following an amendment on 22 January 2022, the state matching contribution increased from 25% to 30%.

8.2 Potential Costs and Benefits

A simulation exercise undertaken by the ESRI in 2019[68] provides estimates on a range of demographic, sectoral, and earnings variables of the potential population of auto-enrolled workers. It found, for example, that the sector with the most workers likely to be auto-enrolled is Wholesale and Retail Trade at 21.8% of AE workers. Employment in this sector, by contrast, was just 14% of total employment in Q1 2015. Sectors will be affected differently by AE due to varying levels of occupational pension coverage and of exempted workers (those earning under €20,000 annually).

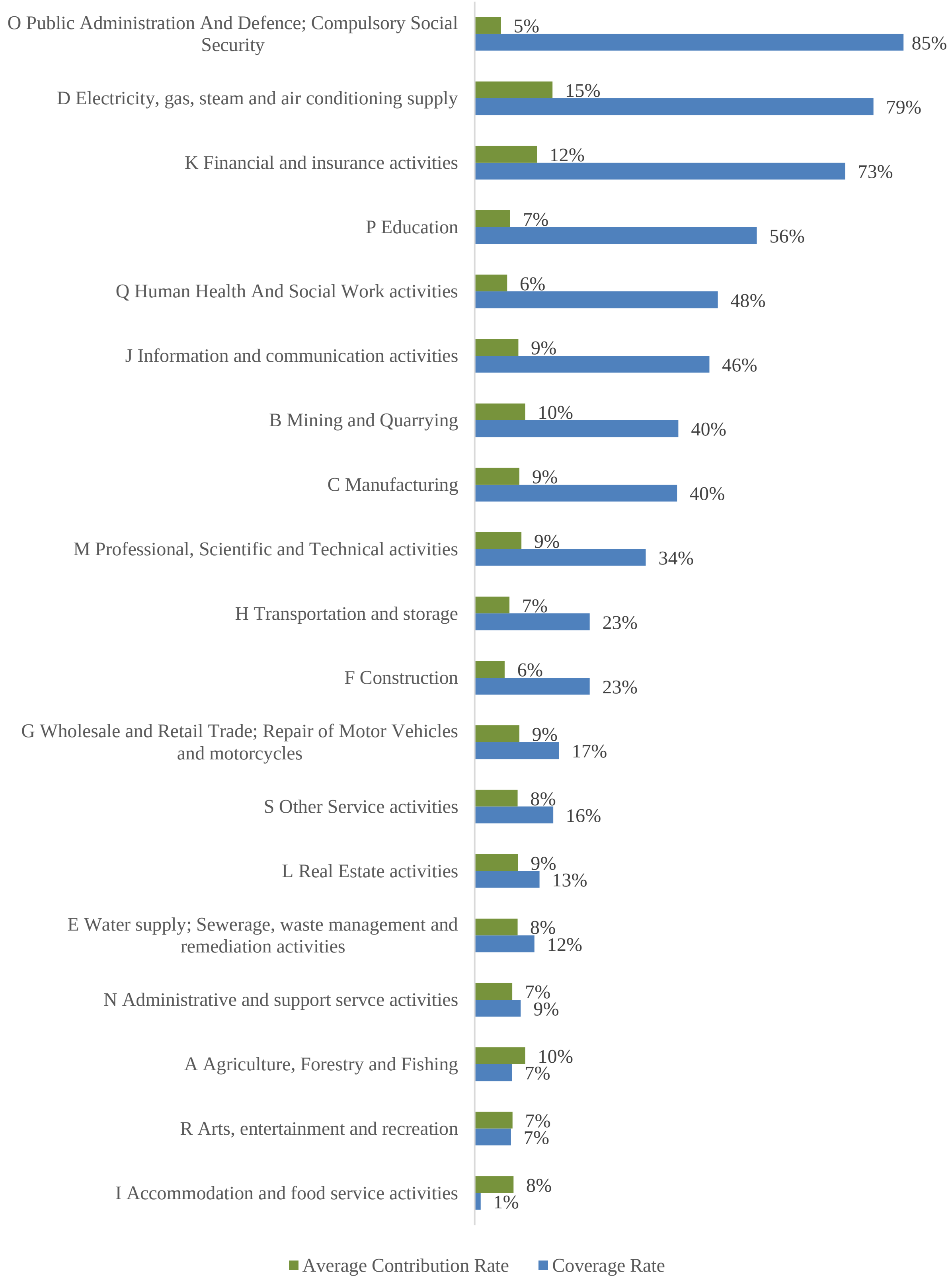
Figure 8.5 below shows the median combined[69] contribution level of employees and employers as a % of gross earnings (excluding those with no contributions) and the proportion of workers making contributions (by sector)[70]. These figures may indicate the capacity for businesses in each sector to make contributions. The ICT and Wholesale/Retail Trade sectors, for example, make similar median levels of contributions, but this is in respect of a much smaller share of employees in the Wholesale/Retail Trade sector than in the ICT sector.

[68] Based on 2013-2015 data.

[69] This includes contributions to occupational pensions schemes, PRSAs, Retirement Annuity Contracts, Additional Voluntary Contributions, and Additional Superannuation Contributions.

[70] These figures are preliminary and based on 2019 data.

Figure 8.5: Average coverage rate and contribution rate per employment and by sector (contribution rates are provided as a % of gross earnings, excluding those with no contributions)



Source: Author's own preliminary estimates using year end 2022 data provided to DSP by the Revenue Commissioners.

On a macro level, the ESRI forecast that Gross Domestic Product (GDP) would be 0.5% below trend five years after full implementation. The forecast scenario, however, assumes an opt-out rate of 30%, which, reflecting on UK opt-out rates[71], may be too high. The negative GDP effect may, therefore, be larger. Average wages were forecast to increase by 0.9%, while employment and participation were forecast to fall by 0.6 and 0.2% respectively. Coupled with lower GDP, these figures would suggest a less competitive economy. The authors of the ESRI paper suggest the long-term effect of auto-enrolment on the economy will be positive. The AE system should smooth growth, somewhat, as the population ages, though long-term GDP and pensioner income could not be estimated by the model used.

Contributions will be the main cost to employers of AE. The administrative side of the system has been designed in such a way as to minimise, if not eliminate, administrative costs for employers. This is because AE is designed to be automatic through payroll, from there, all administration is handled by the Government's Central Processing Authority. How employers respond to the cost of contributions will only be known once the system is in operation. A survey of UK employers found that the most common strategies to deal with an increase in pension contributions, when contribution rates were phased in, were to absorb them as part of other overheads (68% of employers), take a hit to profits (52%), and increase prices (13%) (Department of Work and Pensions, 2022).

During the consultation phase for AE in Ireland, employers' groups submitted that many employers who would be impacted by AE were not making sufficient profits to finance contributions, even with corporation tax relief for their contributions. Employers' groups submitted that many employers who would be impacted by AE were not making sufficient profits to finance contributions, even with corporation tax relief for their contributions taken into consideration. While it has not been possible to link corporate profit statistics to the estimated cost of contributions for employers, it has been possible to estimate the costs for employers. Using 2022 pension contribution and earnings data provided to DSP from the Revenue Commissioners, the cost of Year 1 of AE taking place was estimated[72]. The cost to employers may also be offset somewhat by the Employer PRSI Relief available on contributions to employee pensions - this is not included in the analysis. The total employer cost across all sectors amounts to 0.35% of total compensation.[73] The total cost (employee, employer, and state contributions) amounts to 0.17% of GDP (2022) and 0.32% of Modified GNI (2022). The table below provides sectoral figures for the contributions to AE.

[71] UK opt out rates ranged between 8 and 10% between 2020 and 2022.
[72] These estimates assume no opt-outs or opt-ins. They also use calendar year data to determine whether a person is auto-enrolled, whereas the central processing authority's determination of eligibility will differ.
[73] Table 4.1 here.

Figure 8.6: Employer, Employee, and State contributions to AE by sector (€ millions)

NACE Sector	Employer	Employee	State	Total	Employer's contribution as a % of Total Compensation*
A Agriculture, Forestry and Fishing	4.7	4.8	1.6	**11**	0.4%
B Mining and Quarrying	<1	<1	<1	**<2**	0.3%
C Manufacturing	46.3	46.4	15.4	**108.1**	0.3%
D Electricity, gas, steam and air conditioning supply	<1	<1	<1	**<2**	0.1%
E Water supply; Sewerage, waste management and remediation activities	3.2	3.2	1.1	**7.5**	0.6%
F Construction	34.4	34.4	11.5	**80.2**	0.7%
G Wholesale and Retail Trade; Repair of Motor Vehicles and motorcycles	66.2	66.2	22.1	**154.6**	0.5%
H Transportation and storage	20.8	20.8	6.9	**48.5**	0.5%
I Accommodation and food service activities	25.6	25.6	8.5	**59.8**	0.5%
J Information and communication activities	31.9	31.9	10.6	**74.4**	0.3%
K Financial and insurance activities	9.6	9.6	3.2	**22.3**	0.1%
L Real Estate activities	4.9	4.9	1.6	**11.3**	0.5%
M Professional, Scientific and Technical activities	37.8	37.8	12.6	**88.3**	0.4%
N Administrative and support service activities	38	38	12.7	**88.6**	0.6%
O Public Administration And Defence; Compulsory Social Security	4.7	4.7	1.6	**10.9**	<0.1%
P Education	6.7	6.7	2.2	**15.6**	0.1%
Q Human Health And Social Work activities	29.1	29.1	9.7	**67.9**	0.2%
R Arts, entertainment and recreation	6.1	6.1	2	**14.3**	0.5%
S Other Service activities	7.8	7.8	2.6	**18.3**	0.5%
T Activities of Households as employers	<1	<1	<1	**<2**	
0 Unclassified or unknown	5.3	5.3	1.8	**12.4**	
Total	**385.1**	**385.3**	**128.4**	**898.7**	**0.32%**

Source: Department of Social Protection. *CSO Annual National Accounts (2022) table 4.1.

The total cost to employees and the State were estimated at €385 million and €128 million, respectively. Given that Ireland's pay-as-you-go State pension system will come under strain as the population ages, private pension coverage may alleviate the fiscal pressure on this system. An OECD review (2014) of the Irish pension system, for example, states that the main factor responsible for the future evolution of pension expenditure in Ireland is population ageing. This concern is also outlined in the Government's 2023 National Risk Assessment which states that the ageing population poses "*significant consequences for the funding, sustainability and adequacy of the pensions system.*" (Department of the Taoiseach, 2023). Encouraging people to save for their own retirement is one strategy designed to address this adequacy and financial stability challenge, and in establishing an AE retirement savings system, Ireland is adopting a well-established approach employed in other OECD countries.

The authors of the ESRI paper mentioned above suggest the long-term effect of AE on the economy will be positive. The AE system should smooth growth, somewhat, as the population ages, though long-term GDP and pensioner income could not be estimated by the model used but a case study by DSP intended to reflect the potential accumulated fund for the average worker suggests that someone earning €40,000 annually could have a fund of ~€565,000 after 43 years of contributions[74].

[74]Assuming annual earnings increases of 1.5% and using actuarial standards in terms of investment returns.

9. Statutory Sick Pay

9.1 Overview and rationale

The introduction of a Statutory Sick Pay (SSP) scheme under the 2022 Sick Leave Act (effective as of 1st January 2023) is intended as a progressive measure to bring Ireland into line with many other wealthy OECD countries. The scheme aims to ensure that all employees are entitled to a minimum level of financial compensation if they are genuinely unable to work due to illness or injury; it provides a level of sick pay coverage to employees, often in low paid or precarious roles, that were not previously covered by a company sick pay scheme (many larger employers already had sick pay schemes in place) or were not entitled to Illness Benefit. It removes the implicit incentive for a sick person to work to ensure that they continue to be paid and shares the burden between employers and the State in ensuring that people who are ill do not come to work and put others at risk.

Sickness Benefit under the previous framework

Under the previous framework, employers had discretion on whether to pay their employees who were absent from work due to illness. In the event of their being unable to attend work due to illness, employees of enterprises operating a sick pay scheme would receive payments from their employer under the terms of that scheme. Official statistics on sick pay arrangements are not collected, although an Ibec survey of over 600 companies in 2011 found that 66% of companies in Ireland had a sick pay scheme in place (Department of Enterprise, Trade, and Employment, 2021). More recently, it was reported that 80% of workers in meat processing factories lacked sick pay schemes at work, and 79% of early years professionals (Department of Enterprise, Trade, and Employment, 2021).

For those employees without access to a company sick pay scheme, if entitled, they could avail of Illness Benefit paid through the social welfare system. The payment of Illness Benefit begins from the fourth day of the illness; no payment is made for the first three days (known as ‘waiting days’). This had been reduced from six days as part of measures introduced under Budget 2021. The aim of the newly introduced Sick Leave scheme is address any perceived gap in coverage caused by these waiting days and thus, to mitigate any incentive for those who are sick to continue attending for work. In doing so, it also provides a seamless transition to State-supported Illness Benefit (where the worker is eligible for same).

In terms of Illness Benefit, the concept of waiting days has been a long-standing feature of Ireland’s social insurance system. Similar mechanisms also apply under comparable schemes in other countries. Entitlement to Illness Benefit continues while a person is unfit to work, subject to a maximum of two years, provided that they have at least 260 weeks’ PRSI contributions since first starting work. Illness Benefit is paid for a maximum of one year if a person has between 104 and 259 weeks of PRSI contributions paid. In those cases where a worker is receiving sick pay from an employer, they may be required by the employer to sign over any State payments to the employer.

Basis of the new Sick Pay entitlements

Closing the gap of current waiting days before being able to access Illness Benefit aims to eliminate the affordability issue and minimise the numbers of genuinely sick employees presenting for work. Employers can choose to offer more favourable terms and conditions. The new arrangements are intended to offer a floor level of protection, and legislation will not interfere with any existing and more favourable workplace arrangements that are in place. The new entitlement is legally enforceable through the Workplace Relations Commission and the Courts. The new sick pay scheme is being introduced over a four-year period as follows:

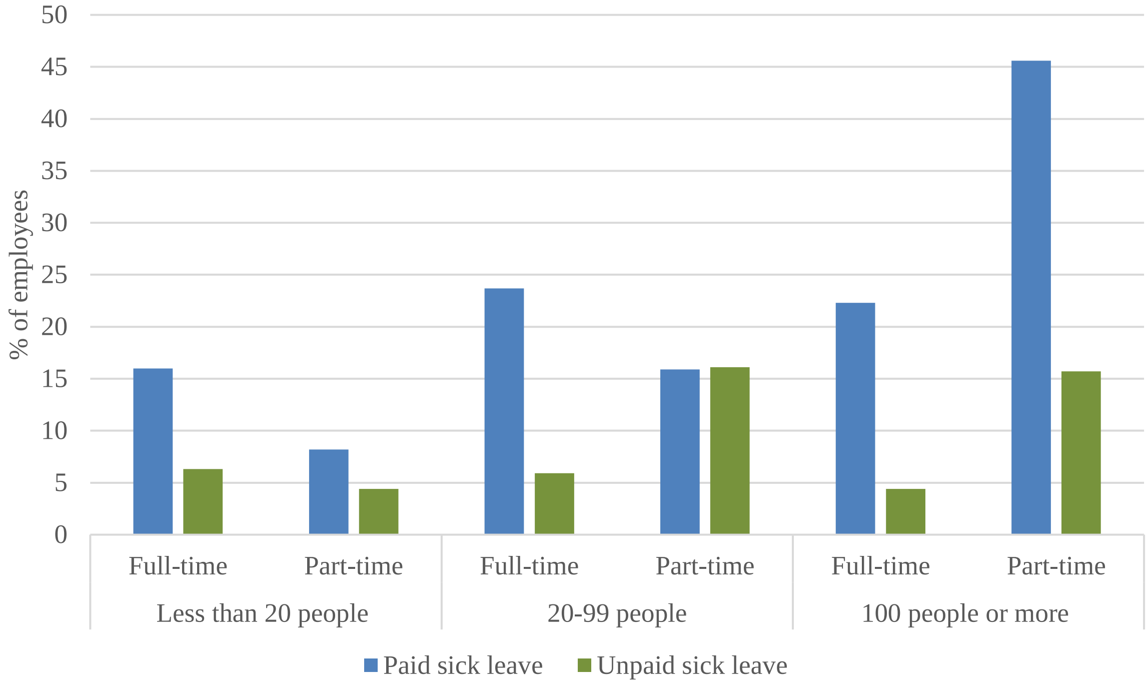
- 3 working days in calendar year in 2023
- 5 working days in 2024
- 7 working days in 2025
- 10 working days in 2026

In order to avail of SSP an employee has to be medically certified and the entitlement is subject to the employee having worked for their employer for a minimum of 13 weeks. The daily rate of statutory sick pay was set at a rate of 70% of regular pay up to a maximum threshold of €110 per day which was set to avoid excessive costs to employers. A daily earnings threshold figure of €110 is based on 2019 mean weekly earnings of €786.33[75]. Although the average weekly earnings have increased since the introduction of the statutory sick scheme, imposing the cap at this level ensures that €110 is the maximum cost for any employer per day.[76] Furthermore, there is no top up of salary from the State and the employer deducts taxes in the normal manner.

Discussions with employers (as set out earlier in the report) indicated concerns from employers that the introduction of SSP would see a substantial increase in the incidence sick leave. The degree to which this will occur remains to be seen, with employer representatives emphasising the benefits for reduction of employees working while actually sick. CSO statistics on paid and unpaid sick leave show that in 2021 just one in twelve (8.2%) part-time employees working in small organisations of less than 20 people took paid sick leave over the previous year, compared with double this figure (16.0%) for full-time employees (see figure 9.1 below). Of full-time workers in organisations of 20 to 99 people, 23.7% took paid sick leave, while a similar figure (22.3%) working in large organisations (100 people or more) took paid sick leave. Just 11.0% of persons working part-time with less than 5 years length of service took paid sick leave, while just over double this figure (22.9%) of their full-time counterparts with similar service took paid sick leave[77].

[75] A weekly salary of €786.33 divided by 5 days multiplied by 70% is €110.08.
[76] Although this is the current cap, it should be noted that there has been no specific decision that this daily cap will remain at €110.
[77] Leave in the Workplace - CSO - Central Statistics Office

Figure 9.1 The percentage of employees who took paid and unpaid sick leave in Ireland, 2021

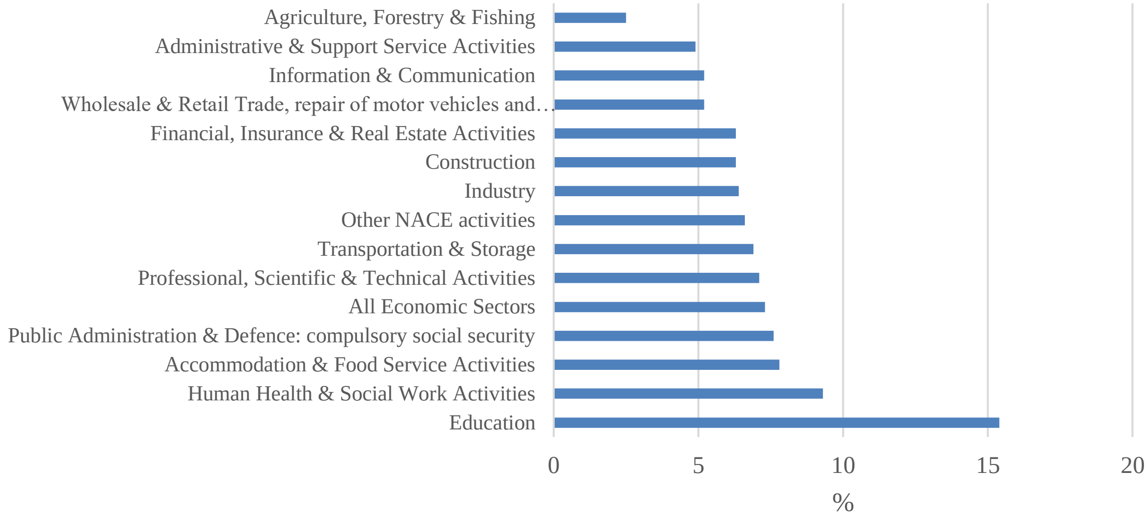


Source: CSO

More up-to-date data published by the CSO shows that an estimated 193,100 (7.3%) of those who were in employment in Q2 2023 were absent from work during the reference week (i.e. temporarily absent from work for reasons including sick leave but also others such as holidays, or maternity leave).[78] This was the same proportion (7.3%) as 12 months earlier. Of this, the largest proportion of absences was in the Education sector, 15.4% followed by the Human Health & Social Work Activities sector (9.3%) and the Accommodation & Food Service Activities sector (7.8%) (see Figure 9.2). The smallest proportion of absences were in the Agriculture, Forestry & Fishing sector (2.5%), Administrative & Support sector (4.9%) and the ICT sector (5.2%). As noted, this data does include other leave rather than just sick leave, therefore, cannot be entirely representative of sick leave. More recent and frequent data with a sole focus on sick leave will be important going forward, particularly to allow for comparison pre- and post-new entitlements.

[78] Absences from Work and Hours Worked - CSO - Central Statistics Office

Figure 9.2 Absences from work in the reference week as a percentage of the numbers employed by sector, Q2 2023



Source: CSO

9.2 Estimated Costs

As part of the Regulatory Impact Assessment (RIA) of the new scheme, in 2021 the Department of Enterprise, Trade and Employment undertook a financial costing of the scheme for employers (Department of Enterprise, Trade and Employment, 2021). The RIA identified two primary costs associated with a statutory sick pay regime for employers:

- **Monetary cost**: When an employee is unable to attend work due to illness, the employer faces the cost of paying that employee a portion of their wages for a fixed amount of time (less Illness Benefit payments recoupable, where applicable)
- **Administration costs**: Employers that do not currently have sick pay schemes in place will be required to have a system in place to administer and ensure that they comply with this new statutory entitlement (i.e., ensuring the system is clearly understood by employees, governing the notification of sickness, determining employee entitlements, keeping records for tax purposes).

This paper takes a similar approach to estimating the costs to employers arising from SSP, as that taken in the RIA. Since there is no granular data available on the distribution of sick pay schemes already in operation, it is not possible to focus the analysis exclusively on the wage levels and wage distribution of those firms that did not have a sick pay scheme in place. This cost estimate examines the costs to employers at specific points along the wage distribution – at the minimum wage, the median wage, the average wage and the 75th percentile. Costs are based on statutory sick pay at a replacement rate of 70%, up to a threshold daily rate of €110.

The distribution of weekly earnings by percentile (2022) and the latest CSO data (Q2 2023) for the average of paid hours and earnings are used in the costing. Weekly wages are then multiplied by 52 weeks to get the annual wage rates or divided by 5 to determine the daily costs and whether the cap applies to particular wage earners. Some findings from the data are set out below:

- The minimum wage of €366.12 per week (on the basis of the 2023 National Minimum Wage rate of €11.30/hour)
- The median wage of €670.90 per week
- The mean wage of €909.77 per week
- The wage level at the 75th percentile of €1,049 per week (using the latest available administrative earnings data from the CSO for the wage distribution points at 75th percentile)

Assumptions for Sick Pay Analysis

In the absence of data on the incidence of sick leave on an economy wide basis, the costing is calculated using the threshold of €110 (and 70% of earnings), and the maximum days of sick leave employee can use for the scheme in a given year. In other words, the assumption is that employees will be using all of the sick days available to estimate the additional costs to the employer, however, this also equals to the financial compensation the employee can receive during the sick days. In some instances, it can be the case that some workers will not avail of the scheme, therefore, reducing the additional costs to the employer.

The application of the €110 threshold will also, to some extent, mitigate costs for employers. Added to this SSP is only paid where a person is medically certified as sick. This will reduce the incentive to seek SSP when not actually sick. Therefore, the days proposed for the sick scheme each year will be multiplied by 70% of the employees earning (also applying the threshold) to capture the maximum costs per employee. The assumption for 10 days will also include an estimate of the cost for the average sick days per employee using the Public Sector Sick Leave statistics 2018 proxy.

The costs set out in this analysis assumes that there is no sick scheme in place. If an employer has a sick pay scheme in place it will generally supersede SSP arrangements. In addition, as mentioned previously, an Ibec survey found that 66% of companies that took part in the study had a sick pay scheme for their employees in 2011. Based on this figure, it can be assumed that many firms will not face additional costs as a result of this new scheme. The analysis further assumes that there is a one-to-one replacement in terms of rostered staff for those who are sick, and that sick pay is therefore an additional cost. However, it may be the case that no additional staff are rostered, in which case there would be no explicit additional cost.

The analysis also does not consider any potential PRSI implications, which would impact on the cost to employers; or any potential corporation or personal tax implications which would offset these costs to employers. The tax implications are difficult, if not impossible, to quantify in the absence of more granular data on the number of employees covered by an employer illness scheme are available (and the level of salary such workers were earning).

The costings, set out in Figures 9.3A and 9.3B below, demonstrate:

- For **3 days** Statutory Sick Pay, the monetary cost for employers ranges from €154 per employee[79] (for employees on the minimum wage) to €330 per employee (the cap is €110 per day). This would equate to, in percentage terms, an additional cost for employers of 0.8% (for employees on the minimum and median wage), 0.7% (for the average wage) and 0.6% for employees who earn the 75th percentile annual wage.

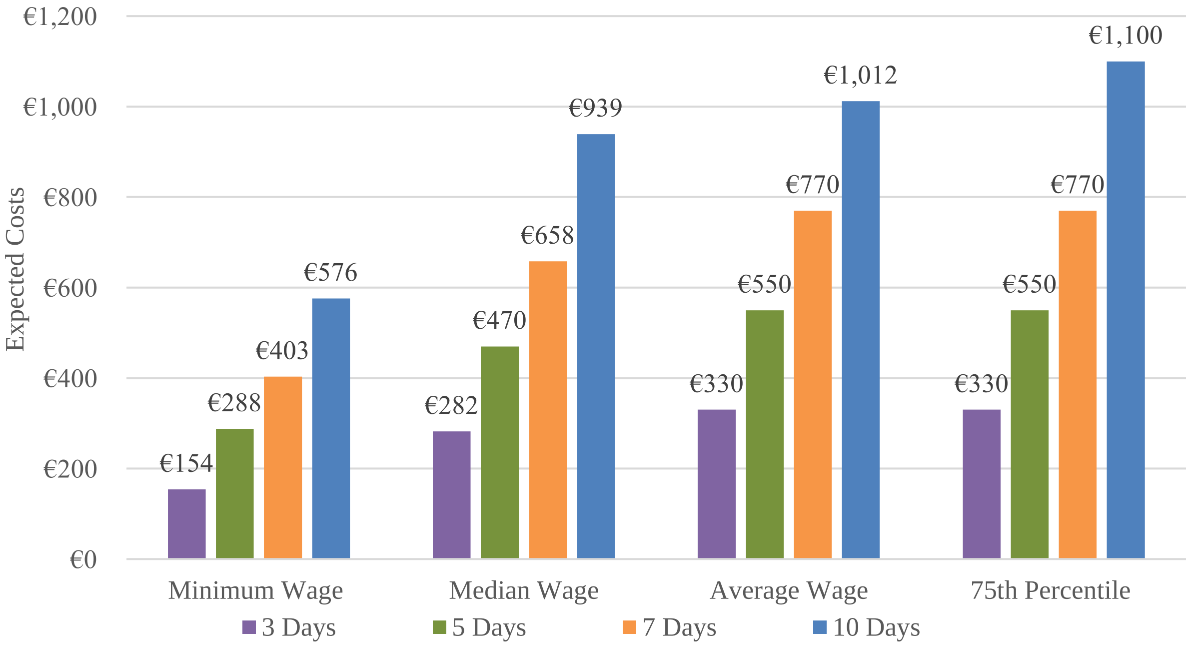
- For **5 days** Statutory Sick Pay, the monetary cost for employers ranges from €288 per employee (for employees on the minimum wage) to €550 per employee (the cap is €110 per day). This would equate to, in percentage terms, an additional cost for employers of 1.3% (for the minimum and median wage employees), 1.2% (for the average wage employees) and 1% (for the 75th percentile earners).

- For **7 days** Statutory Sick Pay, the monetary costs for employers ranges from €403 per employee (for employees on the minimum wage) to €770 per employee (the cap is €110 per day). This would equate to, in percentage terms, an additional cost for employers 1.9% (for the minimum and median wage), 1.6% (for the average wage), and 1.4% for the employees earning the 75th percentile annual wage.

- For **10 days** Statutory Sick Pay, the monetary costs for employers ranges from €576 per employee (for employees on the minimum wage) to €1,012 (the average wage earners) up to €1,100 per employee (for employees earning at the 75th percentile). This would equate to, in percentage terms, an additional cost for employers of 2.7% (for the minimum and median wage employees) and 2.1% (for the average wage). Employees who earn the 75th percentile annual wage are expected to have 2% of an additional cost due to the scheme.

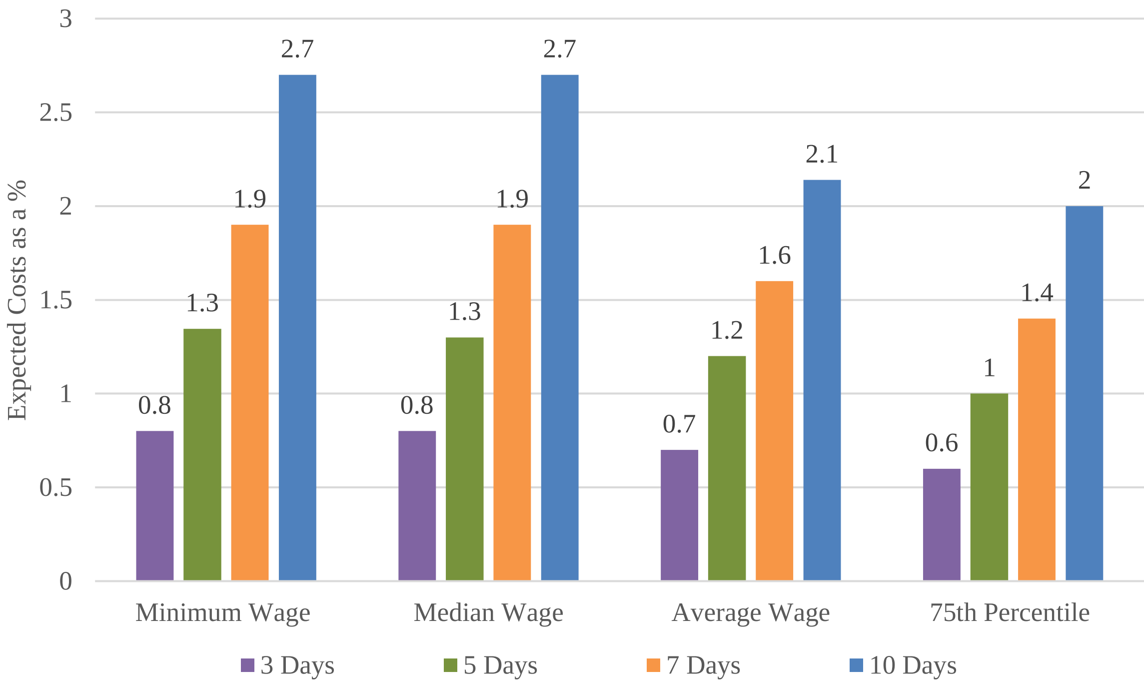
[79] A weekly minimum wage of **€** 366.12 is divided by 5 and multiplied by 70% (to get the cost for 1 sick day) and then multiplied by 3. However, as the minimum wage is increasing from January 2024, the weekly minimum wage is considered to be €411.48 for the rest of the estimates of the monetary costs per employee.

Figure 9.3A: Expected Cost of Statutory Sick Pay (Threshold Applied)



Source: CSO, Own calculations

Figure 9.3B: Expected Cost of Statutory Sick Pay (Threshold applied) as proportion of annual wages.



Source: CSO, Own calculation

Sectoral Impact

Figure 9.4 sets out the expected costs of statutory sick pay as a proportion of sectoral average wage costs per employee – assuming that a person on sick leave is replaced for that day and that there are no private sick pay schemes in place. The figure demonstrates that half of the sectors will experience lower than the average additional cost, which is expected to be 0.7% for 3 days, 1.2% for 5 days, 1.6% for 7 days and 2.3% share of employees' annual wage for 10 days sick pay in 2026. Sectors such as ICT, Financial and Insurance Activities as well as the Mining sector will have the lowest cost of the scheme as a share of employees' wages.

A number of sectors, however, can be expected to incur a higher addition cost than other sectors. These are Administrative and Support Services, Wholesale and Retail, Arts and Entertainment, Other Service Activities as well as Accommodation and Food services. This is assuming that there is no sick pay scheme in place which would mean that the addition cost per employee is expected to be 0.8% for 3 days, 1.3% for 5 days, 1.9% for 7 days scheme and 2.7% for 10 days sick pay scheme for these sectors. Although this paper suggests that certain sectors will have a higher share of wage costs compared to other sectors, the five sectors mentioned above are projected to incur low monetary costs. Also, the daily threshold will support those sectors where employees earn average wage or above which otherwise would impose higher additional costs.

Figure 9.4 Expected Cost of Statutory Sick Pay (€110 daily threshold applied) per employee as a share of wage costs, by sector

Economic Sector NACE Rev 2	3 Day	5 Day	7 Day	10 Day
All NACE economic sectors	**0.7%**	**1.2%**	**1.6%**	**2.3%**
Mining and quarrying (B)	0.5%	0.8%	1.1%	1.6%
Manufacturing (C)	0.6%	1.0%	1.4%	2.1%
Construction (F)	0.7%	1.2%	1.6%	2.3%
Wholesale and retail trade (G)	0.8%	1.3%	1.9%	2.7%
Transportation and storage (H)	0.7%	1.2%	1.7%	2.4%
Accommodation and food service activities (I)	0.8%	1.3%	1.9%	2.7%
Information and communication (J)	0.4%	0.7%	1.0%	1.4%
Financial and insurance activities (K)	0.5%	0.8%	1.1%	1.5%
Real estate activities (L)	0.8%	1.3%	1.8%	2.6%
Professional, scientific, and technical activities (M)	0.6%	0.9%	1.3%	1.9%
Administrative and support service activities (N)	0.8%	1.3%	1.9%	2.7%
Public administration and defence; compulsory social security (O)	0.6%	1.0%	1.3%	1.9%
Education (P)	0.7%	1.1%	1.6%	2.2%
Human health and social work activities (Q)	0.7%	1.2%	1.7%	2.5%
Arts, entertainment and recreation (R)	0.8%	1.3%	1.9%	2.7%
Other service activities (S)	0.8%	1.3%	1.9%	2.7%
Electricity, water supply and waste management (D, E)	0.5%	0.9%	1.2%	1.7%

Source: CSO. Note: The % for 10 days refers to the maximum days of Statutory Sick Pay as opposed to the average of 9.2 days used above.

It is emphasised that these costs are the maximum expected costs by sector, as the maximum daily threshold of €110 is applied, and that the incidence of these costs are only expected for a minority of firms – given previous findings regarding high level of sick pay scheme coverage and the percentage of employees taking any leave. Using the Ibec finding that 66% of firms have a sick pay scheme in place, it would point to costs to firms from sick pay across all economic sectors of the level of one-third of those set out in Figure 9.4 – such that 5 days statutory sick pay would be expected to add 0.4% to wage costs in 2024, 7 days would be expected to add 0.5% to wage costs in 2025 and 10 days would be expected to add 0.75% to wage costs in 2026. The coverage of private sick pay schemes varies by sector, as such, the introduction of SSP may have no cost implications for some sectors. As mentioned previously, there are some potential administration costs for employers who do not currently have a sick pay scheme and will be required to put in place a system to comply with the new statutory entitlement. It is expected that SMEs will have proportionately higher administrative burden (Department of Enterprise, Trade and Employment, 2021), however, due to the absence of suitable and comparable data this paper does not make any cost estimates.

9.3 Potential Benefits

While the introduction of SSP imposes direct financial costs to employers, particularly to those who do not provide an occupational sick pay scheme, there is also strong evidence to suggest a number of indirect benefits. For example, the scheme could help to reduce presenteeism, defined as being present at the job but performing at a reduced capacity due to illness or injury. Studies indicated that presenteeism could lead to a reduction in the output of ill workers, and in the output of co-workers (Greenberg et al., 1995; Hemp, 2004). Ill workers are estimated to be over 30 percent less productive than when they are well (Department of Enterprise, Trade and Employment, 2021). In terms of the Statutory Sick Leave replacement rate and duration on presenteeism, providing a higher wage replacement rate for a longer period of time (as set out within the legislation) could help employers reduce presenteeism as it allows workers time to recovery without worrying about the financial cost of not being at work.

There is also evidence to suggest that such measures can also have a positive impact for employers in terms of reducing (unexpected) absenteeism. The OECD (2020a) has highlighted how increasing the role of employers in relation to sick pay can also stimulate a greater focus within companies on absentee management, with a resulting drop in absentee rates. For example, absenteeism, dropped significantly following the introduction of Statutory Sick Pay in the Netherlands. Studies also indicate that SSP can reduce employee turnover, which is an extra financial burden for employers (Cooper and Monheit, 1993). Studies indicate that employee turnover could cost employers between 25 percent and 200 percent of the annual salary of departing workers (Boushey and Glynn, 2012).

A SSP scheme could also lead to a safer work environment for all employees and reduce the incidence of workplace injury. Sickness could impair the ability of workers to follow safety instructions or to make sound decisions, and this could increase their risk of suffering workplace injuries. Studies have also shown that that workers with paid sick leave are 28% less likely than workers without access to paid sick leave to be injured at work (Asfaw et al, 2012). The safer work environment will help increase the attractiveness of the employer among perspective employees.

In terms of the wider labour market benefits, the scheme could also work to improve the labour market integration of groups currently underrepresented in the workforce. For example, Ireland currently has a significant disability employment gap, vis a vis the general population. As National Disability Authority has borne out, persons with disabilities face many barriers to employment. There is a misperception that persons with disabilities take more sick leave that those without (Department of Enterprise, Trade and Employment, 2021). Also, the existence of a SSP scheme could be positive encouragement for people with disabilities to enter employment in the knowledge that they would not be left without income if they become ill. This was also acknowledged during the engagement with employee representatives who also highlight the importance of SSP for people with disabilities.

10. Additional Public Holiday

10.1 Overview and rationale

The introduction of a new additional Public Holiday in Ireland in 2022 to mark Imbolc/St. Brigid's Day on the first Monday of February brought the total number of public holidays in Ireland to 10[80]. However, as mentioned previously, even with the addition of the new Public Holiday, Ireland is still behind the EU average of 12 per annum. The various Public Holidays in Ireland each year are set out below in Figure 10.1.

Figure 10.1: Irish Public Holidays

Name	Date
New Year's Day	1 January
St. Brigid's Day / Imbolc	***1 February or First Monday in February***
St. Patrick's Day	17 March
Easter Monday	Moveable Monday
May Day	First Monday in May
June Holiday	First Monday in June
August Holiday	First Monday in August
October Holiday	Last Monday in October
Christmas Day	25 December
St. Stephen's Day	26 December

Source: Citizen's Information

10.2 Estimated Costs

The implications of an additional holiday are far-reaching. These include costs, productivity, competitiveness, and other issues across multiple sectors. Due to a lack of available data specific to Ireland, it is not possible to generate a historical estimate regarding the impact of a one-time Public Holiday. There can, however, be an argument made that adequately spaced holidays will present only minimal industrial disruption (such that economic activity is not disrupted in some areas). There may be an increase in consumption, which can serve to benefit certain sectors (i.e., retail and hospitality), economic activity tends to 'bounce back' immediately following a Public Holiday and each Public Holiday presents significant well-being benefits to society, including increased

[80] In 2022, the Government introduced a once-off public holiday on Friday 18th March 2022 in recognition of the efforts of the general public, volunteers and all frontline workers during the COVID-19 pandemic and in remembrance of people who lost their lives due to the COVID-19 pandemic. The Government also decided to introduce a new permanent public holiday established from 2023 in celebration of Imbolc/St Brigid's day.

recreational opportunities and reduced stress. Additionally, the number of Public Holidays in a country also tends to rise as a country becomes wealthier – as it can afford to trade-off an increase in time-off against income (Rosso and Wagner, 2022). However, establishing the impacts of a Public Holiday on GDP can be difficult. Reasons include; the isolated and uncommon nature of additional new Public Holidays to use as a comparator, alongside the challenge of separating out the specific impact of any change in national output which occurs after an additional Public Holiday from the impact of other, concurrent economic activity. Therefore, the authors look to the experience in other jurisdictions as a guide.

Rosso and Wagner (2022) explore the relationship between Public Holidays and GDP. Utilising a global panel for over 200 countries across the period 2000-2019 they use a novel approach to identify the impact of Public Holidays on economic growth based on the fact that many countries do not replace bank holidays which fall on a weekend – this allows them to identify the proportional increase in GDP associated with an extra days work in place of a Public Holiday, and by inference the cost of a Public Holiday when it does reduce the number of working days in a year. The establish a working day elasticity of GDP of 0.2 – so that an extra Public Holiday would forego 20% of proportional GDP (that is the GDP generated in a typical working day). In absolute terms this means that an extra single day of Public Holiday reduces annual GDP by 0.08%. The international nature and long-time span of the panel used to identify the effect of a Public Holiday on economic growth lends strength to the estimates derived in the paper beyond a single country study. Precisely estimating the impact of a Public Holiday in a single country can be difficult due to the number of confounding effects such as it being quite a rare/isolated event for an additional Public Holiday to be introduced in country and the inherent issues with relying on a single estimate for accurately identifying an effect.

The UK has a history of granting occasional Public Holidays in recent years and has collected data on the resulting effects on the UK economy. The Office for Nationals Statistics (ONS) conducted a retrospective study on the economic impact of a singular Public Holiday, focusing on the commemoration of Queen Elizabeth II's 50-year reign as the UK monarch in 2012 (The Diamond Jubilee) (Hardie and Perry, 2013). The study puts the impact of GDP growth at -0.3% to -0.4%. The approach taken in a 2022 Impact Assessment by the ONS is top-down and compares the quarterly growth in GDP following a previous Jubilee event in 2002 and 2012 with that of the 6 years surrounding the events (Department of Digital, Culture, Media and Sport, 2021). The quarter-on-quarter GDP growth rates are averaged to create a baseline of growth (and GDP) in years without an additional Public Holiday, which is then applied to create an estimate of GDP in Q2 and Q3 of the Jubilee Years which is then compared with the actual observed growth in Q2 and Q3 of the Jubilee Years. They estimate the following impacts on GDP from a Public Holiday.

Figure 10.2: Estimated Additional Public Holiday GDP Multiplier

Year	Q2	Q3
2002	0.9982	0.9972
2012	0.9941	1.0012

Source: Department of Digital, Culture, Media and Sport Platinum Jubilee Impact Assessment, Baseline Growth = 1

Based on the above multipliers the ONS estimated that an additional Public Holiday for the Platinum Jubilee in 2022 would have a net cost equating to approximately 0.1% of GDP. Furthermore, the analysis concludes that there are minimal implementation and familiarisation costs for businesses as they are already familiar with procedures required to prepare for a Public Holiday. It also notes that there are some firms that will see an increase in demand due to a Public Holiday – in particular Retail and Hospitality.

10.3 Potential Impact of Additional Public Holiday in Irish Context

Irish GDP Impacts

Given the absence of data on quarterly GDP prior to 1995, and no new Public Holiday being introduced between 1994 and 2022, the authors have opted to use the foregoing results to inform their own estimates. The results presented by Rosso and Wagner (2022) – which closely match ONS estimates cited above of 0.1% of GDP – are used as a first estimate of the impact of an additional Public Holiday in Ireland. As set out above, these suggest that an additional Public Holiday will reduce annual national output by 0.08%. The Department of Finance projects Modified GNI of €283.7 billion in 2023[81]. This would imply that an additional Public Holiday would 'cost' €226 million in terms of output foregone. It is important to note that the above estimates are a blend of both the costs and benefits of a Public Holiday. The loss reflects the output forgone on a net basis – however this is inclusive of benefits in certain industries in terms of increased demand, and the 'bounce back' that might be seen in a sector following a Public Holiday. It is also important to note that the estimated net cost of a Public Holiday in terms of output foregone is not directly experienced as a cost for many businesses.

Sectoral Impacts

Applying the estimates at a sectoral level demonstrates a varying level of cost per sector, but also demonstrates how a Public Holiday can impact depending on the sectoral make-up of individual economies. The impacts of a Public Holiday might be expected to impact on sectors differently. For example, a sector – such as Manufacturing, may see a slowdown in weekly production as key tasks may be delayed. Contrastingly, a sector such as Agriculture where natural processes continue might be less impacted. While other sector such as Accommodation and Retail might see a boost in the level of demand.

Rosso and Wagner (2022) estimated the below elasticities on a sectoral basis. The elasticity here refers to the percentage change in sector output for a proportional change in days worked. For example – in a country with 260 (5 multiplied by 52) working days, a sectoral elasticity of 0.2 would indicate that annual national output would drop by 0.08% (which is 0.2*(1/210). There are currently 10 Public Holidays in Ireland – meaning there are 250 working days in a typical year. An additional working day would be expected to increase output by 1/250 share.

[81] GNI* is used here as a more accurate estimate of Irish economic activity when compared with GDP.

Figure 10.3: Output Elasticity of Additional Working Day

	Services	Wholesale	Agriculture	Construction	Mining	Manufacturing
Log Extra Day	0.26**	0.17	0.0	0.1	-0.36	0.46**
Irish Sectoral Impact on Annual Output%	0.065%	0.0425%	0%	0.0025%	-0.009%	0.0115%

Source: Rosso and Wagner (2022). Note: **Denotes statistical significance at the 5% level.

GDP is Gross Value Added (GVA) plus product Taxes minus product Subsidies. The table below (Figure 10.4) sets out the Irish GVA at a Sectoral Level in 2021. The broad sectoral elasticities from Rosso and Wagner (2022) are applied to the most closely related sectors of the Irish economy to arrive at a more in-depth look at the likely impact of a Public Holiday across sectors. This is useful as the make-up of the Irish economy has shifted significantly over the last 30 years, from Agriculture and Manufacturing to a more service orientated, high-value manufacturing-based economy. This method indicates a total cost of €355 million to the Irish economy from an additional Public Holiday – which is 0.09% of GVA. On a GNI* basis this is 0.13% of GNI* for 2023 – which demonstrates the impact of a Public Holiday can vary based on the sectoral make up of an economy (compared with the top-down estimate of 0.08% of GNI* used above).

Specific Costs for Business

The above analysis refers to costs (and benefits) in terms of national output foregone due to an additional Public Holiday. However, it is possible that there will be additional costs to businesses beyond those covered above – which include adjustment costs and additional pay for staff and will be discussed below.

Companies in Ireland are currently well adjusted for Public Holidays, and so the addition of a Public Holiday should have no significant implications in terms of adjustment costs beyond a typical Public Holiday. The majority of businesses with salaried employees will have no additional pay implications if they are closed during a Public Holiday. Those which do open – such as those involved in international financial markets will owe employees an extra day's pay. A number of businesses will open on a Public Holiday because they may expect to receive a boost to business, such as retail, restaurants, and pubs. These businesses might also expect to incur more significant cost increases than others, particularly as they have a high proportion of employees working part-time. Where a part-time (or full-time) employee works on a Public Holiday they will be entitled to an additional day's pay, and where a part-time employee does not work on that day, they will be entitled to one-fifth of weekly pay (Workplace Relations Commission).

Figure 10.4: Cost of a Public Holiday to Sectors of the Irish Economy

NACE Rev 2 Economic Sector	Gross Value Added (€m)	% Impact on Sector	Impact (€m)
Agriculture, forestry, and fishing (A)	4,338	0	0
Mining and quarrying; manufacturing (B, C)	148,002	0.12%	170.20
Electricity, gas, steam, and air conditioning supply (D)	2,893	0.08%	2.31
Water supply, sewerage, waste management and remediation activities (E)	1,487	0.08%	1.19
Construction (F)	8,718	0.00%	0.22
Wholesale and retail trade: repair of motor vehicles and motorcycles (G)	26,309	0.04%	11.18
Transportation and storage (H)	5,694	0.08%	4.56
Accommodation and food service activities (I)	2,744	0.00%	-
Information and communication (J)	72,473	0.12%	83.34
Financial and insurance activities (K)	18,972	0.07%	12.33
Real estate activities (L)	24,980	0.07%	16.24
Professional, scientific, and technical activities (M)	20,479	0.07%	13.31
Administrative and support service activities (N)	21,296	0.07%	13.84
Public administration and defence; compulsory social security (O)	10,664	0.07%	6.93
Education (P)	10,676	0.07%	6.94
Human health and social work activities (Q)	17,625	0.07%	11.46
Arts, entertainment, and recreation (R)	2,601	0.00%	-
Other service activities (S)	1,484	0.08%	1.19
Activities of households as employers; producing activities of households for own use (T)	13	0.00%	-
Statistical discrepancy	- 40	0.00%	-
All NACE economic sectors	**401,408**	**0.09%**	**355.24**

Source: Own estimates based on Rosso and Wagner (2022)

The approach above allows for a broad estimate of the costs of additional pay in the Wholesale and Retail trade sector, and the Accommodation and Food sectors. Using the CSO's *Earnings, Hours, and Employment Costs Survey* the authors could establish the numbers employed in each sector, the average number of hours worked per week (dividing by 5 as an estimate of daily hours worked) and using hourly labour cost data calculated a rough estimate of the additional pay for each sector. This is set out below in Figure 10.5. It is important to note, that this is likely an upper estimate given the broad sectoral classifications (for example Motor-Vehicle Repair is included in Wholesale and Retail Trade). In addition, as mentioned previously, not all businesses in each sector will open on a Public Holiday. It should also be noted that the costs for businesses in terms of additional pay will be offset as benefits for employees, and so on full society basis are seen as a transfer.

Figure 10.5: Public Holiday Pay in Wholesale and Retail Trade, Accommodation and Food Services

	Wholesale and Retail trade	Accommodation and Food Services
Employment	339,700	174,100
Average Weekly Paid Hours	29.6	26.4
Daily Paid Hours	5.92	5.28
Average Hourly Total Labour Costs	€26.1	€17.65
Total Additional Public Holiday Pay = (Employment*Daily Paid Hours*Hourly Labour Cost)	**€52,487,726.4**	**€16,224,727.2**

Source: CSO, Own Calculations

10.4 Potential Benefits

A number of economic benefits are implicit in the above estimated cost of 0.08% of GDP per day. There are, however, wider benefits which may not be captured and for which estimation is not feasible. In particular, these relate to increased well-being in society from additional recreation time. Merz and Osberg (2009) argue that Public Holidays facilitate the co-ordination of leisure time (such that many individuals have leisure time, at the same time) and that this increases the utility of leisure both on holidays and on workdays. These benefits may even increase productivity of workers on their return from a Public Holiday which may further off-set any costs. Finally, the Accommodation and Food Services and the Retail sectors may see a boost in trade during a Public Holiday due to an increase in consumption. These extra net revenues can assist in off-setting some of the other increased costs outlined here.

11. Right to Request Remote Work

11.1 Overview and rationale

The *Future Jobs Ireland* strategy (2019) set out an ambition to foster labour force participation through flexible working solutions and the subsequent *Remote Work in Ireland* (2019) publication identified three issues to be addressed for Ireland to reap the benefits that remote working can bring. These were Guidance, Data, and Collaboration. The onset of the pandemic in March 2020 provided further impetus to tackle these issues and the 2020 Programme for Government committed to improve remote, flexible and hub-working arrangements in order to promote better work-life balance, higher labour force participation, less commuting and improved regional balance. Following this commitment, the *National Remote Work* strategy was published in January 2021 and identified 15 actions to ensure that remote working becomes a permanent feature in the workplace in a way that maximises its economic, social and environmental benefits.

The Work Life Balance and Miscellaneous Provisions Act 2023 is intended to remove potential obstacles to remote working and provide a right to request remote working for all employees. The right to request other flexible working arrangements such as reduced hours for parents and carers is also a key element of the Act. The Act aims to provide clarity in terms of guidance and regulation for employers, and to assist Human Resource professionals in managing remote working requests. Employers will be required to have regard to a Code of Practice when considering requests for flexible and remote working. The Code of Practice will be established on a statutory footing.

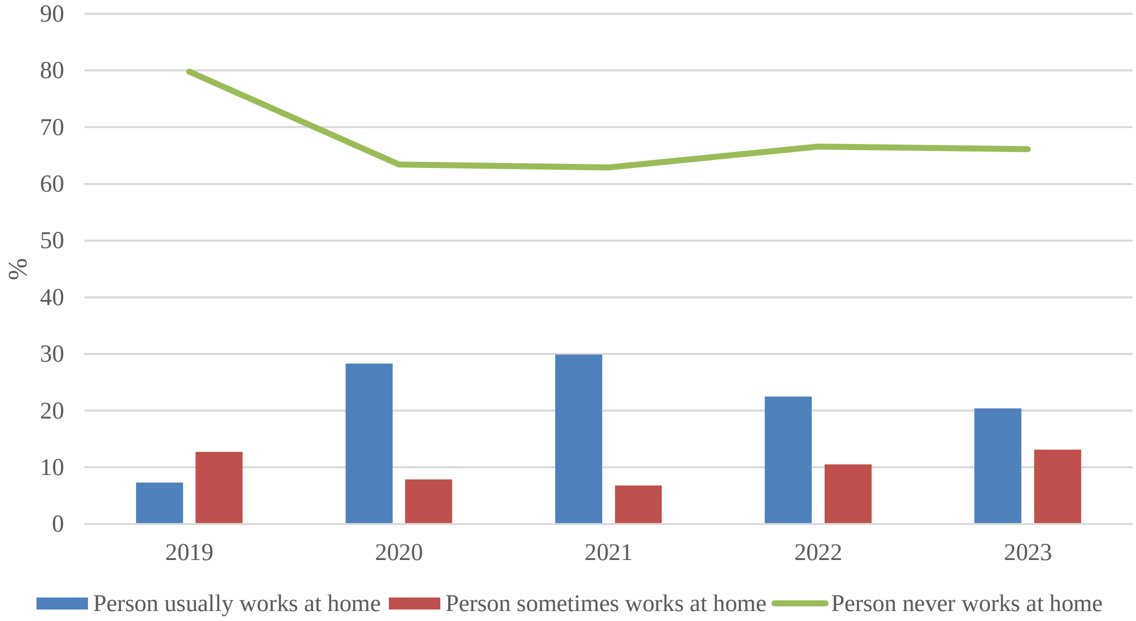
The Workplace Relations Commission has submitted a draft code of practice for employers and employees on the right to request flexible and remote working to the Minister for Enterprise, Trade and Employment. The Minister is considering the code in consultation with the Minister for Children, Equality, Disability, Integration and Youth. All parties are focused on having the code published as soon as possible and it is intended that the remote working provisions of the Act will be commenced as soon as practicable.

Prevalence of Remote Working

Given the already high prevalence of remote working in Ireland, the right to request remote working is only intended to introduce a floor level of rights and will not interfere with any existing and more favourable remote work arrangements that that have been agreed between employers and employees. According to LFS data from Q3 2023, 20.4% of persons in employment ‘usually’ work from home, while an additional 13.1% of persons in employment ‘sometimes’ worked from home (see Figure 11.1 below). The proportion of people who ‘never’ work at home has also declined since the onset of COVID-19 in 2020 and has fallen to around 66% compared to nearly 80% in 2019. Census 2022 data supports this finding, with 32% of persons recorded as having worked from home at least some of the time in early 2022. Of those who did work from home at the time of the Census, 33% worked five or more days per week at home, with 10% working four days from home, 16% three days, 17% two days, and 15% one day.

Furthermore, data from Indeed.com indicates that both employers and employees are advertising/searching for remote working roles at a much higher rate than pre-pandemic levels. In December 2019, before the pandemic, approximately 3.7% of job postings, and 0.4% of job searches contained remote work terms[82], compared to 13.9% of postings and 2.5% of searches in October 2023.

Figure 11.1 Proportion of total persons aged 15 years and over in employment (ILO), classified by Extent of Working from Home, between 2019 and 2023



Source: LFS, CSO

11.2 Relevant State Supports

When assessing the overall impact of remote working on employers, it is important to bear in mind the significant support that Government has already provided in this space. Some other deliverables under the remote working strategy include:

- An enhanced income tax deduction for remote workers amounting to 30 percent of expenses for heat, electricity and broadband expenses was announced in Budget 2022;
- Significant ongoing investment in infrastructure underpinning the development of the National Hub Network and ConnectHubs.ie platform, which was launched in May 2021. To date, a total of approximately €150m has been provided through various funding streams to support the development of remote working and hub infrastructure;
- The Connected Hubs Voucher Scheme was designed to encourage those who had never used a hub to try it for free. It ran from June 2022 and concluded in January 2023 and 7,867 vouchers were redeemed across the Connected Hubs network as a result of the initiative; and

[82] The Indeed Remote & Hybrid Tracker has a table of old and new remote/hybrid keywords which they use to accurately identify the growth trends of remote and hybrid jobs in the labour market. There are 29 and 24 for old and new keywords, respectively.

- Ongoing remote work promotion and skills training-including best practice and equality-to underpin the successful adoption of remote working arrangements by a range of agencies including EI, IDA Ireland, WDC, Skillnet Ireland and ETBs.

11.3 Potential Costs and Benefits

The impact of Government policy on this area is potentially large. The Right to Request legislation itself, however, is likely to be broadly cost neutral for the vast majority of firms, as favourable remote working policies will already be in place in many companies. In other cases, remote working is simply not compatible with the duties associated with certain roles. Nevertheless, it may be the case that some companies will need to establish an administrative function[83] to process these applications where they arise (even in cases where a firm's business model does not/cannot facilitate remote working). This section discusses the potential costs and benefits that may arise as a result of a rise in the prevalence of remote work.

Productivity

International research on the impact of remote working on productivity has reached mixed conclusions. Williamson (2022) found that while remote working is likely to have an overall positive effect on productivity in Ireland, the impact may not be evenly distributed across firms and is likely to depend on factors such as location of worker, remote work intensity and occupation. It was suggested that it may be optimal for firms to adopt a hybrid approach to remote working. Research by the OECD (2020b) suggests that there are two key mechanisms as to how remote working impacts productivity. These are a worker efficiency channel – which depends on the motivation and knowledge flows of/between the workforce – and a cost-reduction channel whereby remote working can free up resources for productivity-enhancing innovation.

Employee Efficiency

In terms of the worker efficiency channel, potential impacts on productivity are ambiguous. Worker efficiency itself can be affected via multiple channels, including employee wellbeing and engagement, the ability to collaborate with colleagues, and managerial oversight. In the NUIG-WDC survey on remote working (2022), 79% of respondents said remote working reduces work-related stress levels. Numerous studies (Bui et al., 2021; Street and Lacey, 2019; Colligan and Higgins, 2005) point to there being a negative correlation between higher workplace stress and productivity. Other surveys, conducted in international settings prior to the pandemic, found negative or ambiguous effects of remote working on employee well-being. A 2017 Eurofound-ILO study, for example, found that 41% of remote workers reported high stress levels, compared to 25% of office workers.

Research (Claudel et al., 2017) has found that there is a link between physical proximity and collaborative research output, demonstrating that 'chance encounters' in offices are essential for knowledge sharing (OECD, 2020). Yang et al. (2022) meanwhile analysed patterns in email, instant messaging and video call communications of over 61,000 Microsoft employees during the first six months of 2020, finding that firm-wide remote working resulted in workers becoming more siloed, with fewer interactions between disparate teams. This is consistent

[83] The revised Work-Life Balance Act 2023 does not mandate companies to have remote work policies with the Conduct of Practice providing a framework for dealing with requests instead.

with NUIG-WDC survey data, where 35% of respondents indicated that remote working negatively impacts their levels of engagement with other colleagues.

It is also possible that remote working could hinder managerial oversight and reduce the manager's effectiveness in coaching, helping, and setting goals for workers (Bonet and Salvador, 2017). Research by Emanuel et al. (2023) finds there to be a trade-off between human capital development and productivity for remote/hybrid workers. The study finds that feedback between employees (software engineers in a Fortune 500 firm) is 21% higher for those working in close proximity to one another (i.e., in the same building) than those more distant.

Overall, evidence presented in the worker-efficiency channel is mixed. While employee wellbeing appears to improve with remote working, evidence suggests that collaboration between employees and managerial oversight decrease. This being said, over 80% of respondents to the NUIG-WDC national remote working survey (2022) agreed or strongly agreed that remote working improves their productivity overall. However, it is possible some survey respondents conflated output with productivity. Given 49% of respondents to the NUIG-WDC survey indicated that they work longer hours when working from home, it could be the case that though their output increased, their productivity (i.e., output per hour worked) did not.

Societal Impacts

A recent IGEES paper on remote working (Williamson, 2022) found that, on balance, remote working is likely to have a positive impact on the Irish economy and society. Remote working has broad societal impacts across a range of areas including environmental emissions, labour market participation, and household/business costs. Firstly, in terms of benefits to firms, remote working can attract new pools of workers to the labour market, potentially reducing hiring costs for firms, and filling skills shortages. Remote working can also reduce hiring costs for firms by improving staff retention. This is in-line with evidence from the United States (Mas and Pallais, 2017) which suggests that employees may be willing to give up an average of 8% of their wages for the option to work from home. Further, remote work could lead to large cost savings for businesses if it allows them to move away from large-scale headquarters and reduce their spend on related costs such as electricity, heating, cleaning and catering. In such cases, these cost savings could result in higher productivity for firms if they are re-invested in productivity-enhancing resources such as new technologies or highly skilled employees.

Estimates by Hayes (2020) indicate that under a scenario where 20% of staff work from home, firms in Ireland could save an average of €1,492 per year in rental costs. Research by PwC Netherlands assumed that a 10% rise in remote working across the economy would lead to a 10% fall in all office-related costs meanwhile, and a study by Bloom et al. (2015) found that remote working resulted in cost savings of approximately $2,000 per year per remote worker for a large Chinese call centre firm, with two-thirds of the savings coming from a reduction in office space. The remainder of the saving came through other mechanisms, such as reduced sick leave and worker attrition. For example, worker attrition fell by 50% among the remote workers, significantly reducing hiring costs. There is only limited evidence of this happening in Ireland to date, however. A recent survey by Dublin Chamber (2023) found that 72% of respondents indicated that their business had not changed the size of their premises in the last year while just 15% of firms had decreased the size of their premises.

Although companies potentially have the opportunity to make (both direct and indirect) cost savings from reduced office space, remote working may result in cost increases for firms in certain instances, particularly for SMEs who may not benefit from economies of scale to invest in technologies to support remote working in the same way as larger firms. There is evidence from the UK, for example, that pre-pandemic, employees of SMEs had worse access to portable devices (e.g. laptops) than larger firms (Institute for the Future of Work). Smaller companies may therefore struggle with the cost burden of managing both remote and 'usual' office spaces. Hub working may be a more viable option for SMEs than for larger firms, however, providing the opportunity for staff to meet physically without permanently renting office space (Williamson, 2022).

Although many companies can benefit from reduced spend on office costs, it is important to note that firms reliant on high levels of footfall in city and town centres, such as those in the retail and hospitality sector, may suffer from reduced revenues as incidence rates of remote working rise. Firms in these sectors may choose to expand operations in suburban or rural areas, however, to move closer to consumers working from home. Right to Request legislation is likely to have no impact on these firms as remote working is unsuitable for roles which require the provision of face-to-face services.

Emanuel et al. (2023) suggests that work from home preferences are highly correlated with age and gender. Their research found that quit rates (per month) of younger employees increased by 0.93 percentage points when team proximity (i.e., working on-site next to their teammates) was lost, while for female employees quit rates increased by 2.1 percentage points. This suggests that support for remote working is not homogenous across various age/gender cohorts within an organisation, so firms should be flexible in accommodating different remote working preferences amongst their staff. Creating a conducive legislative environment for remote working can ensure employers based in Ireland are able to remain internationally competitive in terms of the attraction and retention of global talent.

Overall, survey evidence suggests employers support the introduction of Right to Request legislation. In a survey of 500 companies by Dublin Chamber in Q2 2022, 77% said that Right to Request remote working legislation is a welcome development. More recently, Dublin Chamber's Q3 2023 Business Outlook Survey found that 57% of firms expect the development of a Code of Practice on the Right to Request to be helpful, with just 12% expecting it to be unhelpful.

12. Parent's Leave and Parent's Benefit

12.1 Overview and rationale

This Chapter considers Parent's Benefit, the most recent addition to the suite of social insurance benefits available to parents[84]. At present there are four main entitlements to leave for parents: maternity leave, paternity leave, parental leave, and Parent's Leave. Parent's Leave is the most recent addition and has been an entitlement since November 2019. It was created in accordance with requirements under the EU's Work-Life Balance directive[85].

Initially, the leave period (and social insurance payment) was available for up to 2 weeks. It was extended to up to 5 weeks in April 2021 and up to 7 weeks in July 2022. The leave period must be taken within the first 2 years of a child's life with limited exceptions. The social insurance benefit, Parent's Benefit, is payable provided the worker has sufficient social insurance contributions. Unpaid leave may still be taken if conditions to receive Parent's Benefit are not satisfied. Under the directive, the minimum number of paid weeks of leave must increase to nine by August 2024, which has been provided for by Budget 2024. The directive does not require further increases in the leave period. Figure 12.1 sets out the main differences between the four types of leave mentioned above:

Figure 12.1. Types of Parental Leave

Leave	Who gets it?	How long?	Is a social insurance benefit available?	Weekly Rate
Maternity leave	Mothers: they must go on leave at least 2 weeks prior to the date of confinement.	42 weeks	Yes, Maternity Benefit is paid for up to 26 weeks.	€274
Paternity leave	Relevant parent of children under 6 months old.	2 weeks	Yes, Paternity Benefit is paid for up to 2 weeks.	€274
Parental leave	Parents of children under 12 years old.	26 weeks each	No.	N/A
Parent's leave	Parents of children under 2 years old.	7 weeks each	Yes, Parent's Benefit is paid for up to 7 weeks.	€274

Source: Department of Social Protection

Employers are under no obligation to pay employees on Parent's Leave. Employees availing of Parent's Benefit can choose the payment to be paid directly to their employer, which could indicate that the employer is topping up the payment (if not to the employee's usual full salary). There is limited administrative burden on employers relating to Parent's Benefit. Employees can self-certify to Department of Social Protection (DSP) that their leave was approved and the Department will only contact a small percentage of employers for verification as a control exercise.

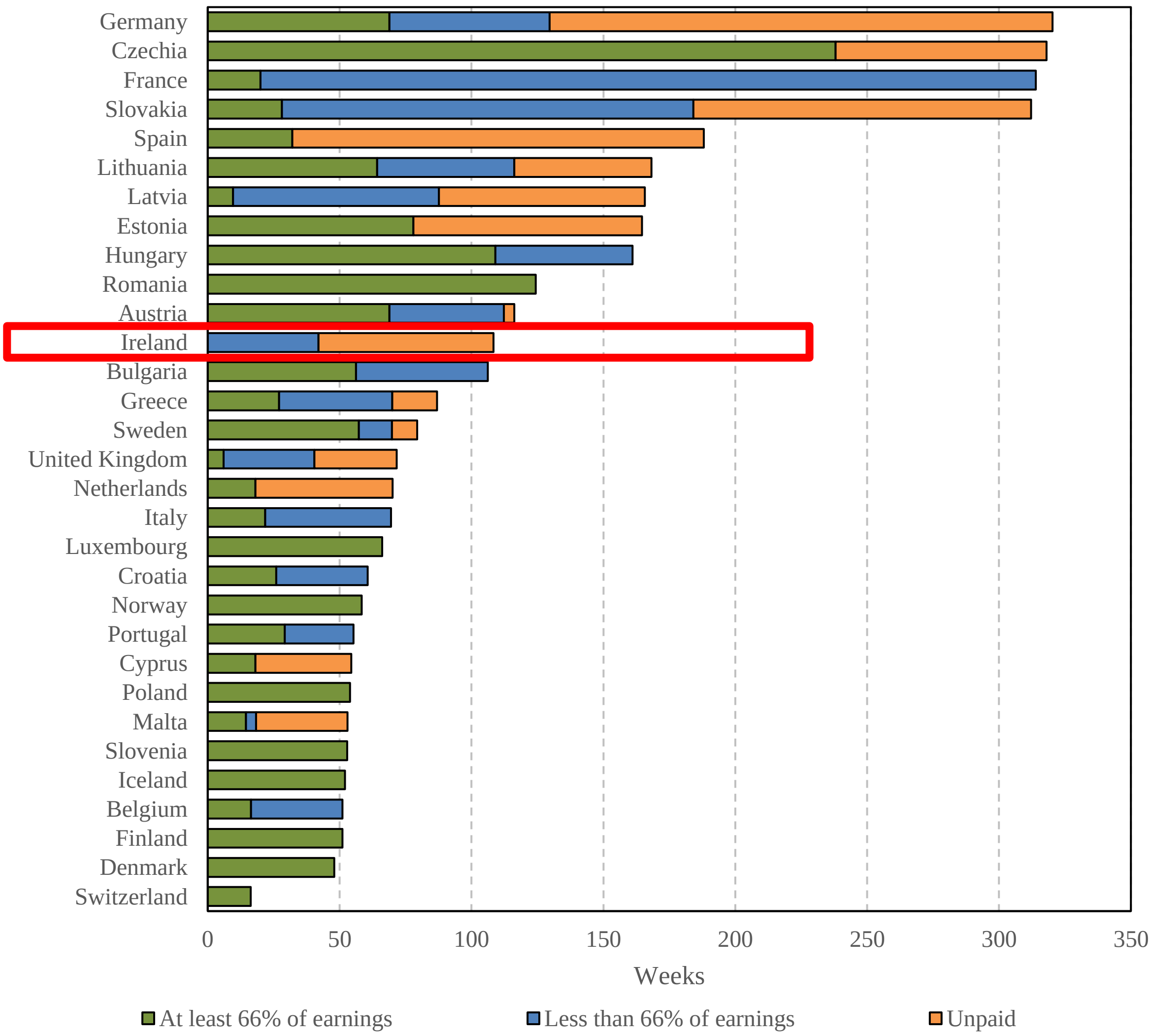
[84] There are instances in which the non-biological parents of a child may avail of these schemes. For the sake of readability, these are not discussed as they pertain to small numbers of people. Indeed, Adoptive Leave and Benefit are not discussed here for the same reason.
[85] EU Directive 2019/1158

International context

It is difficult to compare across countries on standalone policies such as Parent's Leave as some countries combine some or all of the policies. To get around this, Figure 12.2 attempts to simplify child-related leave policies across Europe into one graphic. France and Czechia, which have the highest number of paid child-related leave weeks available to a couple, both have a parental leave policy whereby one parent can reduce their work partly or entirely for the first three (France) or four (Czechia) years of a child's life and get a benefit payment.

Most of the countries included provide paid leave of between 1 and 2 years for a couple who are maximising their leave entitlements. Notably, the payment in Ireland is a flat rate, as opposed to a rate which is a proportion of the claimant's income, as is done in most other countries. Average weekly earnings in Ireland were €907.48 in Q1 2023, meaning that at present each of the paid-leave policies replace 29% of gross earnings for the average earner. Across the countries included below, the median number of paid leave weeks is approximately 61 and the median number of leave weeks paid at two-thirds of earnings or more is 48.

Figure 12.2: Leave available to a couple (assuming they maximise their leave entitlements)



Source: International Network on Leave Policies and Research [18th International Review of Leave Policies and Related Research 2021 (leavenetwork.org)](). Note: Where there is a choice between longer leave with less pay and shorter leave with more pay, the former is used.

Additionally, a key aim of the Work-Life Balance directive is to encourage more equal sharing of child-related leave between men and women. Prior to the introduction of Parent's Leave in Ireland, a woman was eligible for 71% of the total available leave and 93% of total available paid-leave for a couple: those figures are now more equal at 68% and 79%. When Parent's Leave and Parent's Benefit are increased to nine weeks by August 2024, in line with the directive, those figures will reduce slightly to just under 68% and 76%. Given that most of the leave entitlements are voluntary in nature, whether these changes will result in more equal sharing of leave within households may yet be borne out by the data.[86] Such analysis could be undertaken at a later stage.

12.2 Potential Costs

Economic effects of Parent's Benefit

The introduction of Parent's Benefit is expected to have a range of costs and benefits for individuals and businesses. The following section considers some of these and presents estimated participation rates in the scheme based on the DSP administrative data. There are several direct and indirect costs associated with Parent's Benefit. The main direct cost will be in the form of DSP expenditure, financed by the Social Insurance Fund. Employers may also experience additional costs in the form of overtime pay or hiring costs for temporary workers, though the employee's obligation to provide 6 weeks' notice and the employer's right to defer leave for up to 12 weeks could minimise such costs. As Parent's Benefit can be taken for up to 7 non-consecutive weeks over two years, some employees and employers could coordinate to ensure as minimal business disruption as possible. Data from the CSO (2023) suggest that the majority of Parent's Benefit claims were taken in one block (75% in 2021 and 85% in 2022). Employers may also be negatively affected in the form of lost productivity, a less easily quantifiable cost. This will depend on the nature of the work carried out by a person going on leave meaning productivity losses could be borne differently across sectors. For example, a specialised worker within a workplace may not be replaceable at all in the short term, whereas, in other occupations, it may be possible for existing employees to cover missing shifts.

Analysis of Uptake in Parent's Benefit using DSP Administrative Data

An internal analysis of parent's benefit recipients shows that use of the scheme varies by economic sectors. The sectors with the highest share of workers availing of the scheme are Public Administration, Financial, Insurance, and Real Estate activities, and Administrative and Support Service Activities. By contrast, the sectors with the lowest share of workers availing of the scheme were Agriculture, Forestry, and Fishing, Transportation and Storage, and Accommodation and Food Service Activities. The uptake by sector will be affected by the age and gender composition of the workforce in each sector. [87][88] The proportion of workers availing of Parent's Benefit in each sector is shown in Figures 12.3A and 12.3B below. The ratio of female-to-male uptake of the scheme by sector is shown in Figure 12.4.

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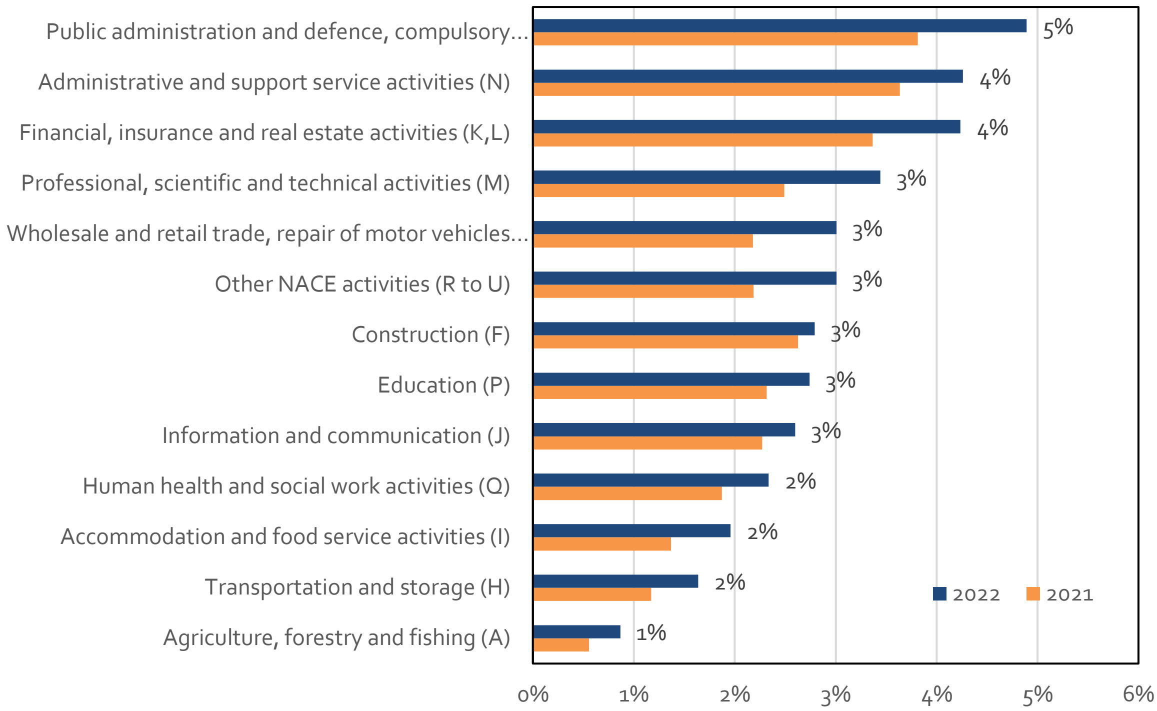
[86] Mothers are legally required to go on leave from work for the two weeks before and the four weeks following the date of confinement. All other leave is voluntary.

[87] The average age of first-time mothers was 31.5 in 2022 and for mothers of all births was 33.3.

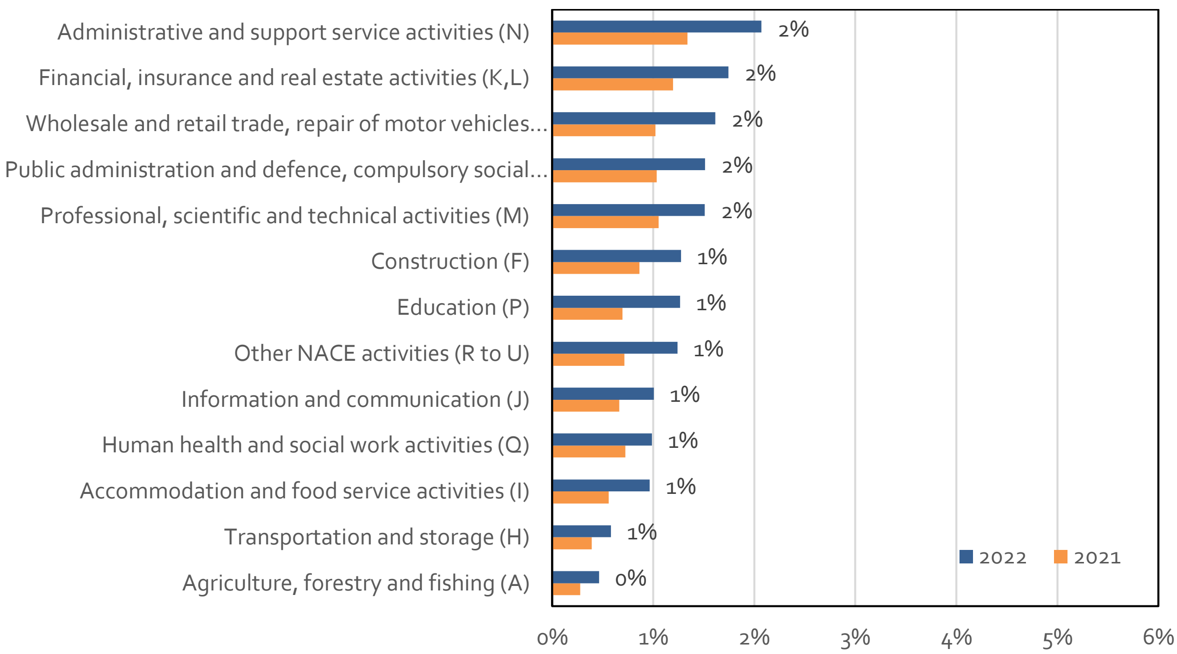
[88] A CSO analysis of 15 to 44 year olds found different uptake rates by sector.

Figure 12.3A: Share of female workers in each sector availing of parent's benefit (by gender and year)



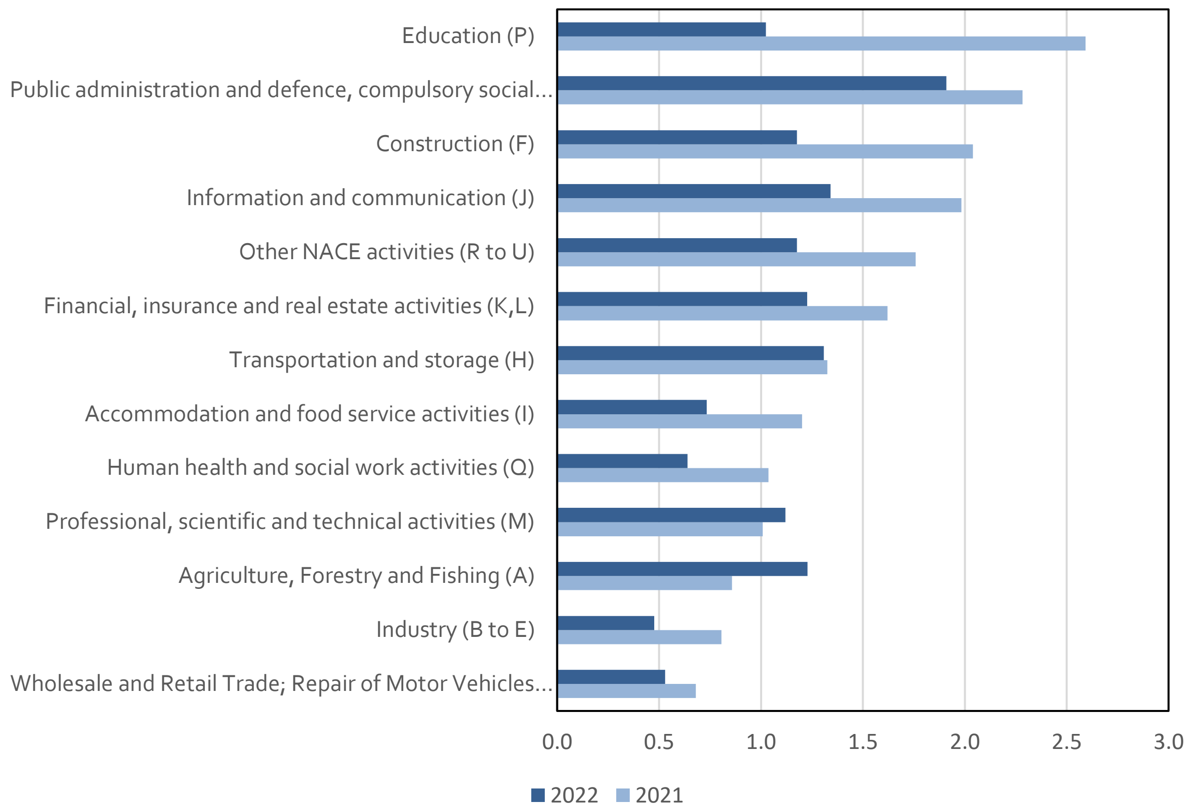
Source: DSP administrative data. Note: Unique claimants in each year are linked to their employer's economic sector using DSP administrative data. The population for each sector is taken from the LFS's figures available from CSO table QLF03. The average of a year's four quarters are used.

Figure 12.3B: Share of male workers in each sector availing of parent's benefit (by gender and year)



Source: DSP administrative data

Figure 12.4: Ratio of female-to-male uptake of parent's benefit (by sector and year)



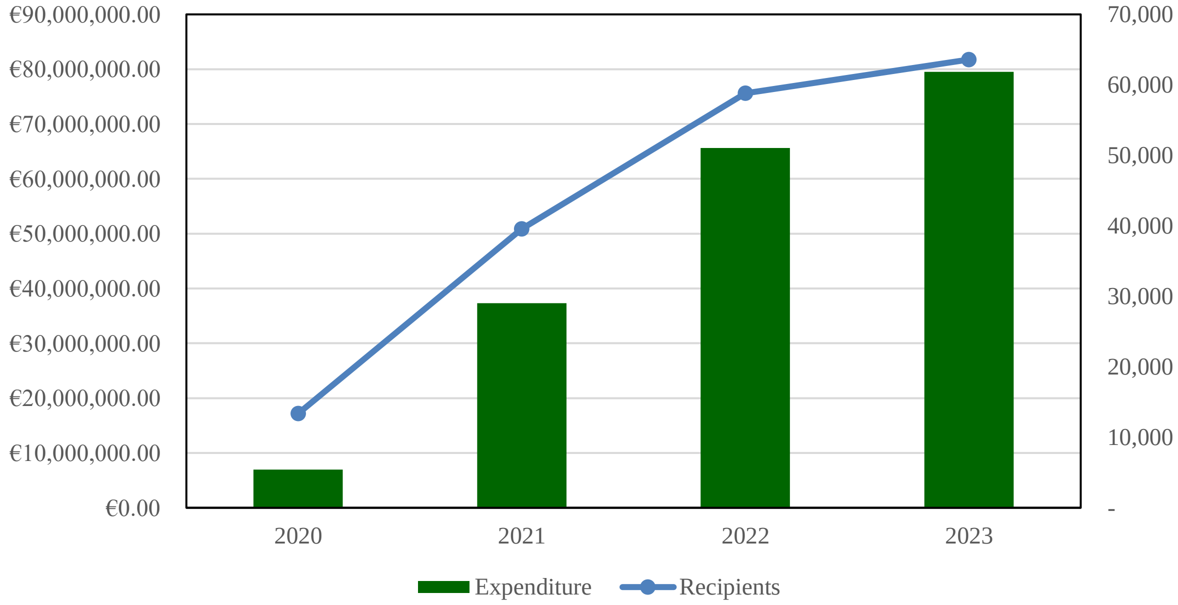
Source: DSP administrative data

Though there have been more female than male recipients, the number of male recipients increased in 2022 by 57% compared to 2021, whereas the figure for females was 28%. Given this policy is still in its infancy, it may be some time before eligible males and females avail of the scheme at the same rate. An analysis incorporating an eligible parent's various characteristics, such as income, could provide greater insight into whether the policy's design may incentivise use of the scheme by males and females to different degrees. For example, a Spending Review 2020 paper on Parent's Benefit, published by the Department of Public Expenditure and Reform, estimated that fewer organisations in the private sector offer salary top-ups for those taking paternity leave than for those taking maternity leave. That is in spite of the fact that maternity leave is 13 times longer. This could indicate that males seeking to avail of Parent's Benefit may be less likely to get a top up on their salary and, consequently, less likely to avail of the scheme. From an employer's perspective, however, a flat rate of payment could minimise business disruption by not acting as a sufficient incentive for higher-income parents to make use of the scheme.

Scheme expenditure

As Parent's Benefit began in November 2019, expenditure in that year was minimal at approximately €60,000. For the full years of 2020 and 2021, expenditure was €6.7 million and €36.6 million, respectively. There were over 13,000 unique recipients in 2020, which rose to just under 40,000 in 2021 and ~59,000 in 2022. There were ~64,000 unique recipients in 2023, as of February 2024. Figure 12.5 depicts the yearly expenditure and recipient numbers.

Figure 12.5 Parent's Benefit, expenditure and recipients, between 2020 and 2023



Source: DSP, (2023 figures are provisional)

12.3 Potential Benefits

There are several potential benefits associated with the scheme. In the first instance, these accrue to the family. The short-term benefits may depend on the perspective of individual parents: whether parent's leave is viewed as an opportunity to spend time with a child, as a way to temporarily reduce childcare costs, etc. It is reasonable to expect longer term effects regardless of the parent's reasoning for use of the leave period. For example, post-natal paid leave is associated with small, positive increases in female employment rates, provided the paid-leave period does not extend beyond two years (Akgunduz and Plantenga, 2013). The leave period also provides parents with a concentrated period in which to bond with a child. Use of the scheme could also provide fathers with experience in childcare: studies in Scandinavian countries and Japan show that greater division of labour within the household even promotes higher fertility rates.

13. Pay Related Social Insurance (PRSI) Roadmap

13.1 Overview and rationale

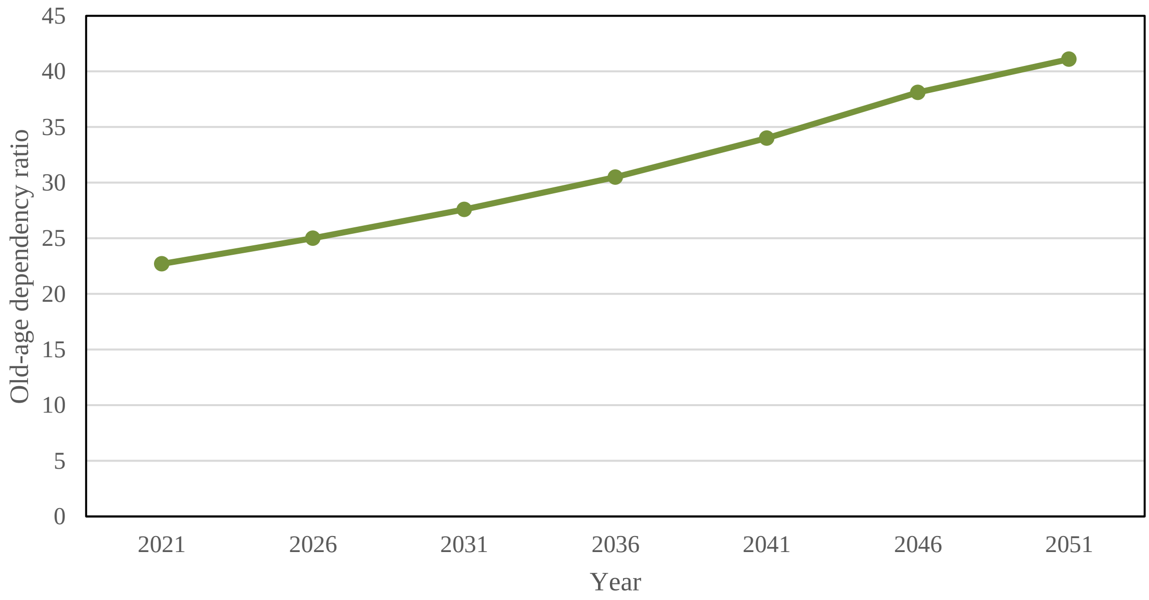
The PRSI Roadmap refers to the planned annual increases in Pay Related Social Insurance (PRSI) over the period 2024 to 2028, intended to increase the sustainability of the social insurance fund (SIF), given the retention of the State Pension age at 66 is government policy and the commitment to introduce 'Pay-Related Benefit', a social insurance benefit set to replace Jobseeker's Benefit. The approach follows on from the report of the Commission on Pensions and the Actuarial Review of the SIF, as well as Government decisions. The commitment to consider increasing PRSI to pay for Pay-Related Benefit, among other things, was included in the Programme for Government and the Economic Recovery Plan 2021 committed to bringing forward proposals on this on foot of lessons from the pandemic.

One of the findings in the Actuarial Review of the Social Insurance Fund published in March 2023 (Department of Social Protection, KPMG) was that it would be possible to address the projected funding crisis in the social insurance system in the steady-state scenario by, beginning immediately, increasing PRSI rates by 0.08 of a percentage point per annum every year up to 2076. In addition to addressing the Social Insurance Fund's sustainability challenges, it was envisioned that an increase in PRSI rates was necessary to fund a Pay-Related Benefit scheme for newly unemployed jobseekers.

The challenge associated with the funding challenges for the social insurance fund are illustrated by looking at the projected Old-Age Dependency. This shows the number of people aged 65 and over as a percentage of the working age population (people aged 15-64). As of 2022, the old-age dependency ratio was 22.7 percent. This is forecast to rise to 41.1 percent by 2051.[89] This means that the ratio of working aged people compared to those over the age of 64 will almost halve compared to the current position. Absent appropriate policy changes such as the PRSI rate increases, is forecast to put substantial stress on the social welfare system.

[89] [89] The CSO uses a range of assumptions to forecast population growth. This paper uses one of the central scenarios, where net migration is assumed to increase by 30,000 per annum to 2051 and the total fertility rate is to decrease from 1.8 to 1.6 by 2031 and to remain constant thereafter to 2051. The different assumptions result in an old-age dependency ratio which ranges between 40.3 percent and 47.6 percent. CSO projections are outlined here.

Figure 13.1 Old-Age Dependency Ratio in Ireland by year



Source: CSO

13.2 Costs and Benefits

The PRSI Rate increases and estimated revenue are shown in Figure 13.2. Increases will take effect from 1 October each year from 2024 to 2028 and will apply to all classes of PRSI. The Government also agreed to increase the annual minimum contribution payment for Class S and the voluntary contribution for former self-employed contributors by €150 to €650 from 1 October 2024.

Figure 13.2. PRSI rate increases and additional revenue by year[90]

	2024	2025	2026	2027	2028	Total
PRSI rate increases	0.1pp	0.1pp	0.15pp	0.15pp	0.2pp	**0.7pp**
Additional PRSI revenue (€'m)	62	323	633	1,083	1,603	**3,704**

*Effective as of 1 October of each year, following the rate increase.

The increase in the minimum self-employed contribution from €500 to €650 would yield an estimated €8 million in a full year. This is reflected in the figures in the table above. The 2024 figure is proportionately estimated to be €2 million. The full year impact of the 0.1 percentage points increase on average wages is approximately 90 cent per week. Employer costs would increase by a similar amount. The cumulative impact of the proposed changes for the combined years 2024-2028 is €6.30 per person per week on average wages.

[90] These estimates assume real wage growth of between 3.7 and 4.1% and employment growth of between 0.8 and 1.2% in each of the years considered.

Annex A: Overview of business supports in Budget 2024

- Budget 2024 contained a number of measures which will support businesses facing increased costs of doing business:
  - The 9% VAT reduction for gas and electricity is being extended for an additional 12 months, until 31st October 2024.
  - The temporary excise rate reductions applying to auto diesel, petrol and marked gas oil which were due to expire on 31st October 2023 are being extended until 31st March 2024.
  - An increase in the limit on the amount that an investor can claim relief on under the Employment and Investment Incentive Scheme, to €500,000.
  - An increase in VAT registration thresholds for SMEs to €40,000 for services and €80,000 for goods.
  - Reduced Capital Gains Tax rate of 16% for Angel Investors in innovative SMEs, on gains of up to €3 million.
  - An increase in the R&D tax credit from 25% to 30%, as well as increasing the first-year upfront payment from €25,000 to €50,000, which will be of particular benefit to SMEs.
  - The commencement of a range of amendments to the Key Employee Engagement Programme for the attraction and retention of staff.
  - The Increased Cost of Business Scheme was announced and will provide a grant to benefit a significant number of small and medium businesses at a cost of €257 million. This scheme is a once-off grant aid provision and not a commercial rates waiver.

Annex B: Tax Debt Warehousing

Table B.1 Economic Sector by Debt Band

Sector	Total No.	Total Debt Value	Band 1 No.	Band 1 Value	Band 2 No.	Band 2 Value	Band 3 No.	Band 3 Value	Band 4 No.	Band 4 Value
Wholesale and Retail Trade	8,600	357.19	5,432	4.19	2,589	68.75	480	99.14	99	185.11
Accommodation and Food	5,689	264.96	3,168	2.77	1,984	55.46	433	90.65	104	116.09
Professional, Scientific, and Technical	7,354	235.59	4,676	3.46	2,219	59.4	388	75.79	71	96.95
Construction	9,160	209.61	6,538	4.91	2,231	55.73	305	62.43	86	86.54
Administrative and Support Service	2,386	125.23	1,577	1.31	636	16.07	136	29.32	37	78.53
Information and Communication	1,597	120.53	1,001	0.69	416	10.78	126	28.48	54	80.58
Manufacturing	3,183	104.99	2,072	1.56	896	25.6	177	37.78	38	40.06
Transportation and Storage	2,299	67.92	1,577	1.18	586	14.77	115	24.72	21	27.25
Real Estate Activities	2,118	49.28	1,543	1.09	484	11.68	74	15.66	17	20.85
Human health and Social Work	2,483	43.78	1,955	1.18	449	10.94	69	14.6	10	17.06
All other sectors	12,566	141.46	10,119	6.64	2,220	48.04	197	41.65	30	45.13
Grand Total	**57,435**	**1,720.54**	**39,658**	**28.97**	**14,710**	**377.22**	**2,500**	**520.2**	**567**	**794.15**

Source: Revenue

Table B.2 Economic Sector by Business size – Number of Customers

Sector of Business	No Employees	1 to 9	10 to 49	50 +	Grand Total
Accommodation and Food	2,090	1,789	1,429	381	5,689
Administrative and Support Service	1,092	885	304	105	2,386
Construction	4,153	4,151	795	61	9,160
Human health and Social Work	886	1,088	425	84	2,483
Information and Communication	798	613	157	29	1,597
Manufacturing	1,129	1,459	500	95	3,183
Professional, Scientific, and Technical	3,735	2,984	572	63	7,354
Real Estate Activities	1,458	559	85	16	2,118
Transportation and Storage	1,174	781	310	34	2,299
Wholesale and Retail Trade	3,254	3,930	1,257	159	8,600
All other sectors	6,633	4,902	911	120	12,566
Grand Total	**26,402**	**23,141**	**6,745**	**1,147**	**57,435**

Source: Revenue

Table B.3 Economic Sector by Business size - Debt value

Sector of Business	No Employees	1 to 9	10 to 49	50 +	Grand Total
Accommodation and Food	29.75	21.04	75.2	138.97	264.96
Administrative and Support Service	11.75	14.76	26.36	72.36	125.23
Construction	66.54	59.8	58.65	24.62	209.61
Human health and Social Work	8.83	8.19	7.51	19.24	43.78
Information and Communication	17.34	16.19	43.51	43.48	120.53
Manufacturing	10.96	24.59	38.4	31.04	104.99
Professional, Scientific, and Technical	60.49	66.6	69.55	38.95	235.59
Real Estate Activities	20.36	13.46	10.12	5.35	49.28
Transportation and Storage	13.55	14.05	23.28	17.03	67.92
Wholesale and Retail Trade	62.19	70.98	124.87	99.16	357.19
All other sectors	35.85	34.84	31.04	39.73	141.46
Grand Total	**337.62**	**344.5**	**508.49**	**529.93**	**1,720.54**

Source: Revenue

Annex C: Estimate of cost impact of improvements to working conditions – stylised examples

Table C.1: Estimates of the cost impact in 2024 (relative to 2023) of forthcoming changes to working conditions

	Small Hospitality Firm		Mid-sized Retail Firm			Large ICT Firm	Construction Firm	Legal Services Firm
Measure	**Firm 1a**	**Firm 1b**	**Firm 2a**	**Firm 2b**	**Firm 2c**	**Firm 3**	**Firm 4**	**Firm 5**
Statutory Sick Pay	0.58%	0.52%	0.55%	0.49%	0.48%	0%	0%	0%
Public Holiday	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%
Right to Request Remote Work	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	0%	~ 0%
Parents Leave/Benefit	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	0%	~ 0%
Living Wage	12.39%	12.39%	9.81%	9.81%	8.65%	~ 0%	0%	~ 0%
Sub-total	**12.97%**	**12.91%**	**10.36%**	**10.30%**	**9.13%**	~ 0%	**0%**	~ 0%
+ *Auto-enrolment retirement savings*	*1.50%*	*0.75%*	*1.50%*	*1.14%*	*1.14%*	0%	0%	0%
Sub-total	**14.47%**	**13.66%**	**11.86%**	**11.44%**	**10.27%**	~ 0%	0%	~ 0%
- *broader wage developments*	*(7.88%)*	*(7.88%)*	*(6.52%)*	*(6.52%)*	*(6.52%)*			
Total	**6.59%**	**5.78%**	**5.34%**	**4.92%**	**3.75%**	~ 0%	**0%**	~ 0%

Source: DETE based on stylised examples of firms. These figures refer to the cost increase associated with forthcoming changes to working conditions for those measures that will be in effect as of end-2024. These costs are presented on an annualised basis. As the cost impact of these measures on each of our stylised firms is assessed in 2024 and 2026, relative to 2023, we assume no additional cost associated with the extra public holiday. We can estimate the impact of moving from nine to ten public holidays, using the pay and working conditions that are expected to prevail in 2024 and 2026. For our stylised hospitality and retail firms, we estimate a cost impact ranging from approximately 0.3% to 0.4%.

Table C.2: Estimates of the impact in 2026 (relative to 2023) of forthcoming changes to working conditions

	Small Hospitality Firm		Mid-sized Retailer			Large ICT Firm	Construction Firm	Legal Services Firm
Measure	**Firm 1a**	**Firm 1b**	**Firm 2a**	**Firm 2b**	**Firm 2c**	**Firm 3**	**Firm 4**	**Firm 5**
Statutory Sick Pay	2.39%	2.15%	2.19%	1.92%	1.88%	0%	0%	0%
Public Holiday	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%
Right to Request Remote Work	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	0%	~ 0%
Parents Leave/Benefit	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	~ 0%	0%	~ 0%
Living Wage adjustment	32.75%	32.75%	27.10%	27.10%	23.10%	~ 0%	0%	~ 0%
Sub-total	**35.14%**	**34.90%**	**29.29%**	**29.02%**	**24.98%**	~ 0%	**0%**	~ 0%
+ *Auto-enrolment retirement savings*	*1.50%*	*0.75%*	*1.50%*	*1.13%*	*1.13%*	0%	0%	0%
Sub-total	**36.64%**	**35.65%**	**30.79%**	**30.15%**	**26.11%**	~ 0%	**0%**	~ 0%
- *broader wage developments*	*(17.26%)*	*(17.26%)*	*(15.80%)*	*(15.80%)*	*(15.80%)*			
Total	**19.38%**	**18.39%**	**14.99%**	**14.35%**	**10.31%**	~ 0%	**0%**	~ 0%

Source: DETE based on stylised examples of firms. Notes: These figures refer to the cost increase associated with forthcoming changes to working conditions for those measures that will be in effect as of end-2026. These costs are presented on an annualised basis. As the cost impact of these measures on each of our stylised firms is assessed in 2024 and 2026, relative to 2023, we assume no additional cost associated with the extra public holiday. We can estimate the impact of moving from nine to ten public holidays, using the pay and working conditions that are expected to prevail in 2024 and 2026. For our stylised hospitality and retail firms, we estimate a cost impact ranging from approximately 0.3% to 0.4%.

Annex D: Additional Evidence provided by written procedure

SMEs in Retail (Grocery) Sector

The authors received written submissions from small and medium sized firms in the retail sector. These were provided to the authors by written procedure following workshops which took place with stakeholders (see Section 6). The following outlines the main findings from these written case studies.

	Firm 1	Firm 2	Firm 3
Sector	Retail – Grocery (Suburban SME)	Retail – Grocery (Urban SME)	Retail – Grocery (SME)
Statutory Sick Pay Scheme	No	No	No
Occupational Pension Scheme	No	No	No

The living wage by far represents the largest costs to these firms, and all firms expect an impact in terms of pay relativities and follow-on costs. Firms 2 and 3 also note the increased wage premium associated with Sundays as a particular challenge. Firms 1 and 2 note that they have been dealing with increases in other costs such as packaging up, insurance, energy. In addition, firm 1 notes that increases in labour costs for external services such as cleaning, maintenance, security, cash collection etc., will increase costs further, and as Employers Liability Insurance Premium is based on an employer's payroll cost, it expects that insurance costs will increase further.

In terms of the planned response, all firms expect to cut the number of employee or employee hours. Both firms 1 and 2 stress that increasing prices is not an option due to the retail sector being extremely price sensitive and competitive. Firm 3 believes price hikes are inevitable but not a desirable response. In terms of planned investment to facilitate the green and digital transition, firms agree that this will be minimal, and many SME's in this sector do not have the cash flow or ability to pay back loans for investments such as self-service checkouts. All firms refer to the negative knock-on effect on investment in relation to family-owned, community, neighbourhood-based retailers and SME's in small towns in this sector, who are dealing with challenges including rising costs, tight margins, and unregulated competition.

These firms highlight that the retail sector has traditionally been built on low cost, high turnover, payroll value and payroll numbers, which has been an essential requirement in the business module, to allow consumers to benefit from value driven prices against a background of ever-increasing costs of doing business. These firms note that this business module will be become increasingly difficult to maintain and may well lead to greater foreign-owned discounter market penetration and ultimate dominance as the SME's flounder.

SME in the Leisure Sector

A written submission was also received from an SME in the leisure sector involved in the operation of sporting facilities.

	Firm 4
Sector	Leisure Sector (Sports and Recreation)
Statutory Sick Pay Scheme	No
Occupational Pension Scheme	No

This firm expects the living wage to have the most significant impact among the forthcoming changes to working conditions, adding 26% to pay costs by 2026 relative to 2023. The firm is highly labour intensive and employs large numbers of part-time staff (approximately 75% of staff are employed on a part-time basis). The firm expects pay relativities to impact those earning up to €34,000 (for full-time staff). In total, the forthcoming changes to working conditions are expected to increase costs by 35% over 2024 to 2026, relative to 2023.

Overall, the living wage is expected to account for approximately 75% of the total increase in costs associated with the changes to working conditions over 2024 to 2026. Auto-enrolment scheme is expected to account for 12.5%, while statutory sick pay is expected to account for 8.4%.

On the broader impact of these measures, the firm expects that additional costs will be passed through in the form of a 5% to 10% increase in the price of products in 2024 (as required by the single-digit net margins that the firm is operating under). In addition, the impact on cash flows is expected to have implications for warehoused debt, capital investment and investments related to the green transition.

This firm also highlights the relatively high price position in Ireland at present, and outlines that there is limited scope for further price increases, particularly for SMEs operating outside of urban areas. The firm also highlights the potential adverse impacts on Ireland's international competitiveness as a result of increases in the employer cost base.

Annex E: List of workshop attendees

Workshop – Employer perspective

Schedule of attendees:

1. Dublin Chamber
2. Ibec
3. Irish Small Medium Enterprise Association (ISME)
4. Small Firms Association (SFA)
5. Chambers Ireland
6. Retail Grocery Dairy & Allied Trades Association (RGDATA)
7. Convenience Stores and Newsagents Association (CSNA)
8. Sligo Business Improvement District (BID)
9. Irish Exporters Association (IEA)
10. Vintners' Federation of Ireland (VFI)
11. Car Rental Council of Ireland
12. American Chamber
13. Fáilte Ireland
14. Association of Visitor Experience and Attractions (AVEA)
15. Irish Hotels Federation (IHF)
16. Restaurant Association of Ireland (RAI)

Workshop – Trade Union/Employee perspective

Schedule of attendees:

1. Service Industrial Professional and Technical Union (SIPTU) – Services Division
2. Service Industrial Professional and Technical Union (SIPTU) – Manufacturing Division
3. Service Industrial Professional and Technical Union (SIPTU)
4. Irish Nurses and Midwives Organisation (INMO)
5. National Union of Journalists (NUJ)

Annex F: Other considerations (in addition to the LPC assessment)

- The median wage data for 2022 was published by the CSO in October 2023. The actual median hourly wage for 2022 was €19.60 (5% lower than that estimated by the LPC).
- The Department of Finance wage growth forecasts used by the LPC were sourced from the Stability Programme Update (SPU) published in April 2023. This forecast wages per head to rise by 5.6% and 5% in 2023 and 2024, respectively. The SPU forecasts are made on a 'no policy change' basis and did not consider a 12.4% increase in the NMW from 2024.
- The Department of Finance published its Economic and Fiscal Outlook in October 2023 and reduced its forecast for wage growth to 4.4% and 4.6% for 2023 and 2024, respectively. The Department noted that wage growth in H1 2023 had been lower than the rate of increase in consumer prices, a factor that has been common across many advanced economies. This difference is carried forward into projections out to 2026. This highlights the uncertainty in projecting the median hourly wage over the medium term, and how this can feed into actual movements in the minimum wage as it moves towards a projected Living Wage.
- When looking at wage increases over the medium-term (in any/all sectors), these are not solely a function of recent Government decisions: wages would continue to rise over time in the absence of any State intervention (and employees would naturally transition between sectors in response).
- Beyond these considerations, the actual median hourly wage for 2022 (€19.60) was a function of the rate applying across its various constituent sub-sectors, such that:
  - Some sectors of Ireland's economy are highly globalised and are dominated by foreign-owned MNCs. There sectors are characterised by very high median wage levels. For instance, the median wage for the ICT sector was close to €32 per hour in 2022 (or 63% higher than the national median). It is also more than double the median pertaining in the Retail and in the Food & Accommodation sectors. When the ICT sector is excluded, the national median falls to €19.19 per hour.
  - Where other sub-sectors with relatively high median hourly rates – such as Education and the Public Sector – are excluded, the comparative rate falls further still.
  - In contrast, if the sectors with lower median hourly rates were excluded, the median would rise – for example, excluding the Accommodation and Food sector would increase the median to €20.44.
  - Under the current approach, the Living Wage will be anchored at 60% of the national median hourly earnings where the latter are weighted to reflect the median wage across all sub-sectors.
  - This, in effect, means that wages in sectors such as the Retail and in the Food & Accommodation will in future be set with reference to the performance of the economy as a whole but not with reference to the performance of those sectors or the ability of employers in those sectors to pay such wages.
- Finally, Ireland has heretofore had a flexible labour market and this has supported recovery during previous times of economic stress. There is the potential that the current approach will lock-in a set of rigidities to pay determination which will reduce that flexibility into the future. It is also well recognised that although Ireland does have high levels of inequality in terms of market wages, Ireland also has a highly progressive tax and welfare system which is already very effective in correcting for, and mitigating against, these disparities (see: Chapters 2 and 3).

Annex G: Rates of Social Insurance in the 27 EU Member States and the UK, 2021

Member State	Employee %	Employer %	Total %
France	23	45	68
Netherlands	27.65	23.59	51.24
Slovakia	13.4	35.2	48.6
Czech Republic	11	33.8	44.8
Germany	20.23	19.98	40.21
Austria	18.12	21.38	39.5
Italy	9.49	30	39.49
Sweden	7	31.42	38.42
Slovenia	22.1	16.1	38.2
Belgium	13.07	25	38.07
Estonia	3.6	33.8	37.4
Romania	35	2.25	37.25
Greece	14.12	22.54	36.66
Croatia	20	16.5	36.5
Spain	6.35	29.9	36.25
Poland	13.71	22.14	35.85
Average	**14.47**	**21.21**	**35.68**
Hungary	18.5	17	35.5
Portugal	11	23.75	34.75
Latvia	10.5	23.59	34.09
Bulgaria	13.78	19.02	32.8
Finland	10.89	20.66	31.55
UK	14	13.8	27.8
Luxembourg	12.45	15.17	27.62
Lithuania	19.5	1.77	21.27
Malta	10	10	20
Republic of Cyprus	8.3	8.3	16.6
Ireland	**4**	**11.05**	**15.05**

Source: "KPMG social security employee and employer tax rate tables and MISSOC comparative tables"[91] in Tax Strategy Group, July 2023, pages 5-6. Tables sorted from highest to lowest by total. Note: The data are not directly comparable as different approaches, thresholds and ceilings apply across Member States. Also, social security contributions may fund other contingencies, medical care being one example, in different Member States.

[91] The data are not directly comparable as different approaches, thresholds and ceilings apply across Member States. Also, social security contributions may fund other contingencies, medical care being one example, in different Member States.

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To ensure accuracy and methodological rigour, the authors engaged in the following quality assurance process.

Internal/Departmental

- ✓ Line management
- ✓ Other divisions/sections

External

- ✓ Other Government Departments
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- ✓ External expert(s)