

Resolution Foundation

Minimum stay

Understanding how long people remain on the minimum wage

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Background

Since its introduction in 1999, the National Minimum Wage (NMW) has progressed from a divisive policy to one which holds wide-ranging support. It has successfully prevented the worst exploitation of low paid workers while having little or no adverse effect on employment.¹ But despite these achievements, new challenges have emerged. The NMW (£6.31 as of October 2013) was envisaged by the Low Pay Commission (LPC) as an absolute wage floor and not as a “going rate”.² Yet in 2012, 1.9 million people (7.6 per cent of all employees) earned within 25p of the NMW, twice the proportion in 2002. The sheer size of Britain’s minimum wage workforce has begun to attract real concern from all parties.

One crucial question that is too-often overlooked in these debates is the extent to which NMW workers can progress to better paid work. Minimum wage jobs should act as the first rung of a ladder, not as a job for life. Of course, it is right to be concerned about minimum wage workers getting by on less than £12,500 a year, regardless of whether or not they progress. But we should be especially worried if these employees continuously fail to escape from NMW work over time.

This briefing note quantifies the share of NMW workers who have persistently found themselves in NMW-paying roles over time. It also examines the characteristics of those who are more likely to have remained in NMW work for a longer spell. The findings feed into the review of the future of the NMW and LPC that is being hosted by the Resolution Foundation, under the chairmanship of Professor Sir George Bain. This paper is also a pre-cursor to a larger Resolution Foundation project on progression and low pay, due to be published later in 2013, which will explore the dynamics of the UK’s low wage labour market in much greater detail.

¹ For further discussion and a summary of research on the National Minimum Wage, please see *Fifteen Years Later: A discussion paper on the future of the UK National Minimum Wage and Low Pay Commission*, J. Plunkett, 2013.

http://www.resolutionfoundation.org/media/media/downloads/FINAL_Future_of_the_minimum_wage_discussion_paper.pdf

² *The National Minimum Wage: First Report of the Low Pay Commission*, Low Pay Commission, 1998.

<http://www.dti.gov.uk/files/file37987.pdf>

Data and Methodology

- The analysis uses the New Earnings Survey Panel Dataset (NESPD), a longitudinal version of the Annual Survey for Hours and Earnings (ASHE), known as the New Earnings Survey prior to 2004. The NESPD tracks the same employees over time, from 1975 to 2012, and therefore allows us to identify workers who remain on the minimum wage from year to year. Since the calibration weights used for cross-sectional analysis of ASHE are not available in the NESPD, all estimates presented here are unweighted.
- For the purposes of this paper, employees are defined as being on the minimum wage if they are paid up to or within 25 pence of the minimum wage. We use the 25 pence band for our main analysis because it usefully captures the fact that low paid employees tend to cluster at round numbers just above the NMW, for example earning £6.50 when the NMW is £6.31. Results corresponding to alternative 5p and 50p bands are also presented in the Annex.
- Our main analysis focuses on employees who are on the minimum wage in the current year, that entered the workforce at least five years ago and who have only ever held a NMW job in the previous five years. This group includes those who cycle between unemployment/inactivity and NMW work, so-called 'low-pay-no-pay' cycling. Importantly, because of limitations in the data, it may also include those who have switched between NMW work and self-employment, for whom we do not have earnings information. Since the data only provide annual snapshots of an employee's hourly earnings as of April each year, some of those who are trapped may not actually have been *continuously* on the NMW over the previous five years. For comparison, the analysis also identifies employees who have not earned above the NMW across 10 and 13 year periods, using an equivalent approach.

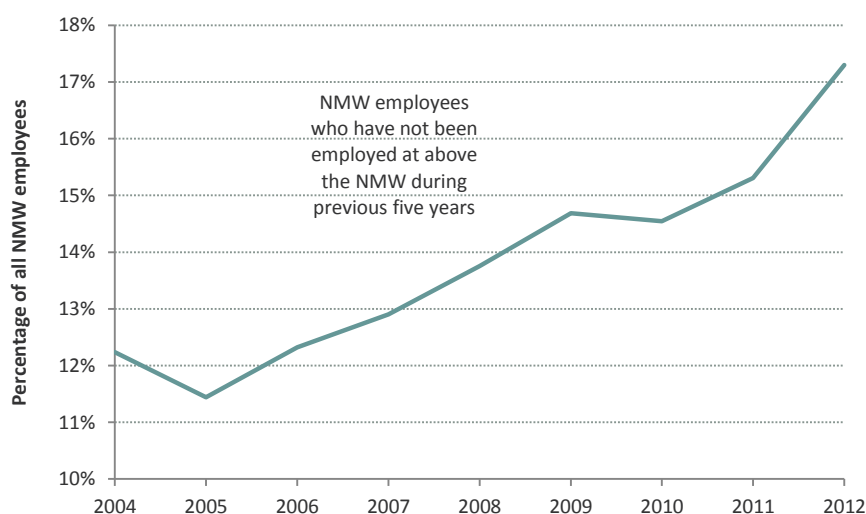
A more detailed summary of the key data and methodology issues is set out in the Annex. A fully comprehensive discussion of the dynamics of the UK's low wage labour market will be provided in a forthcoming report.

Sizing the Problem

We start by looking at those who have not earned above the NMW over a five or ten year period. Because few workers are paid precisely the minimum wage, we define minimum wage work as any employee earning up to or within 25 pence of the minimum wage. Using that definition, we find that 320,000 people have been in the UK's minimum wage labour market for at least five years, only ever having held NMW jobs in that period. This is equivalent to 17 per cent of all employees who earn the NMW. Figure 1 is produced by applying this approach to previous years. It shows that in 2004, the proportion of NMW workers who had not progressed in five years stood at 12 per cent. This may suggest that progression out of NMW jobs has declined, though it is important to remember that the overall size of the UK's NMW workforce has also grown in this time.

Viewed over a longer time period, 140,000 people or 7 per cent of all current NMW earners have been in the NMW labour market for at least 10 years. Around 90,000 people have been earning close to the legal minimum since the policy was introduced. This means that 5 per cent of current NMW earners have been unable to move above the first rung of the earnings ladder in the preceding 13 years (although many of these workers may not actually have been consistently in work over this period). For a minority of NMW workers, becoming stuck at the NMW is a problem which goes well beyond cyclical employment patterns.

Figure 1: Percentage of current NMW employees who have not been employed at above the NMW in the previous five years, 2004-2012



Notes: Employees are defined as being on the minimum wage if they are paid up to or within 25 pence of the minimum wage.

Source: Resolution Foundation analysis of NESPD.

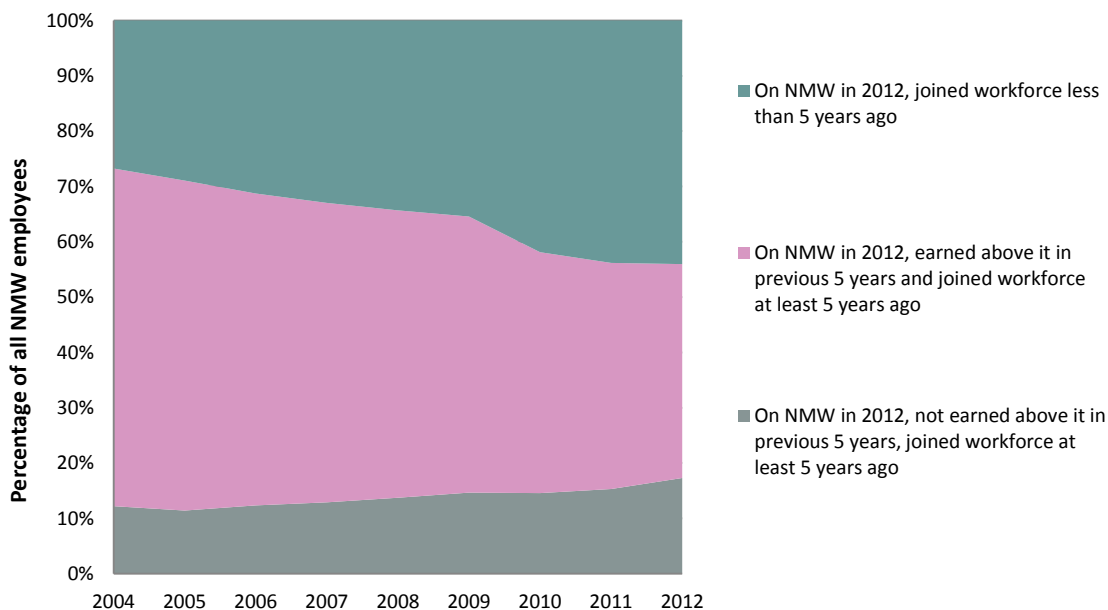
To get a more detailed picture of how the NMW workforce is changing, it is useful to know how the composition of the workers in those roles has changed over recent years. We can divide current NMW workers into three categories:

- new entrants to the NMW who first joined the workforce less than five years ago
- those who joined the workforce at least five years ago but have earned more than the NMW during the previous five years; these workers have moved between higher paying work and the NMW

- those who joined the workforce at least five years ago but have failed to earn above the NMW in the previous five years.

How has the share of NMW workers changed between these three groups? As we saw in Figure 1, Figure 2 confirms that NMW employees have become less likely to have earned above the NMW in the previous five years. Instead, NMW earners are more and more splitting into two groups – new entrants to the workforce, such as young people and migrants, who may move on to higher wages; and those who have been in the NMW labour market for at least five years.

Figure 2: The composition of NMW employees by previous status, 2004-2012



Notes: Employees are defined as being on the minimum wage if they are paid up to or within 25 pence of the minimum wage.

Source: Resolution Foundation analysis of NESPD.

Personal and Regional Characteristics

This section examines which types of workers are more likely to have worked only in NMW jobs for an extended period of time. Looking first at the role gender plays, we already know from previous Resolution Foundation analysis³ that women are more likely than men to be low earners. Women make up 51 per cent of employees but 62 per cent of NMW earners are female.⁴ In this paper, we find that this disparity worsens among those who are trapped in NMW work. Three-quarters (73 per cent) of all those who have only held NMW jobs in the past five years are women, as is shown in Figure 3. The gender gap widens further still when we look over a longer period. Four-fifths (79 per cent) of those who have only had a NMW job in the last 10 years are women. These results are likely to reflect a mix of the kinds of job women more commonly hold and the difficulty of juggling caring responsibilities with a career.

Figure 3: The composition of employee groups by gender (2012)



- Notes:
- (1) Employees are defined as being on the minimum wage if they are paid up to or within 25 pence of the minimum wage.
 - (2) Employees are defined as “Only held NMW jobs during previous 5 years” if they are earning the minimum wage in 2012, entered the workforce at least five years ago and have only ever held a NMW job in the previous five years.
 - (3) Employees are defined as “Only held NMW jobs during previous 10 years” if they are earning the minimum wage in 2012, entered the workforce at least ten years ago and have only ever held a NMW job in the previous ten years.

Source: Resolution Foundation analysis of NESPD.

It is no surprise that age has a large impact upon a person’s likelihood of earning the NMW. Employees aged 21-30 make up 32 per cent of all NMW earners. This may be less of a concern if these NMW jobs later lead to better paying work and for most young people, this is indeed what we find. Although they make up a third of NMW earners, only 11 per cent of those who have been in NMW jobs for five years are in the 21-30 year old age group.

Where problems become more visible is with older workers. While the 46-55 age bracket accounts for 17 per cent of all NMW employees, 30 per cent of those who have only held NMW jobs in the last five years

³ *Low Pay Britain 2013*, M. Whittaker and Hurrell, A., 2013

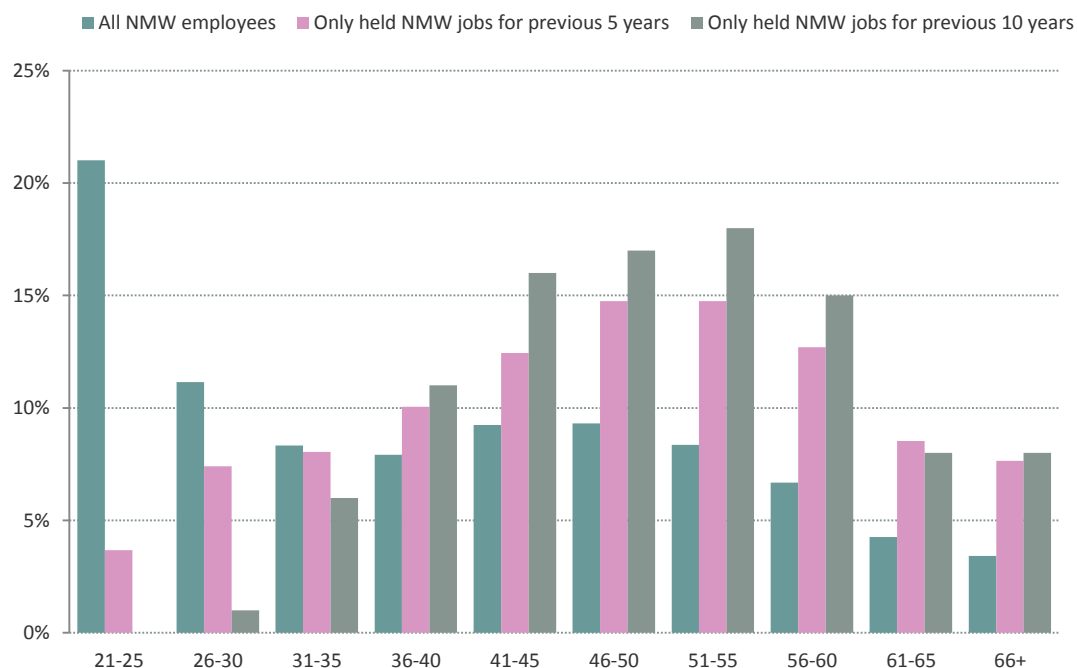
http://www.resolutionfoundation.org/media/media/downloads/Low_Pay_Britain_2013.pdf

⁴ While men do make up a greater number of those who are economically active, these figures refer to employees only and do not include the self-employed who are more likely to be male.

are in this band. When we look at those who have been trapped at the NMW for 10 years, 18 per cent are 51-55 year olds, despite making up only 8 per cent of all NMW earners.

As Figure 4 highlights, the crucial fork in the road appears to be in an NMW employee's mid-thirties. Not branching off into higher paid employment by that point means an increased chance of remaining in the NMW labour market. That elevated risk of becoming trapped in NMW jobs only diminishes as retirement age approaches.

Figure 4: The distribution of NMW employees and employees who have not been employed at above the NMW by age (2012)



Notes: See Figure 3 above.

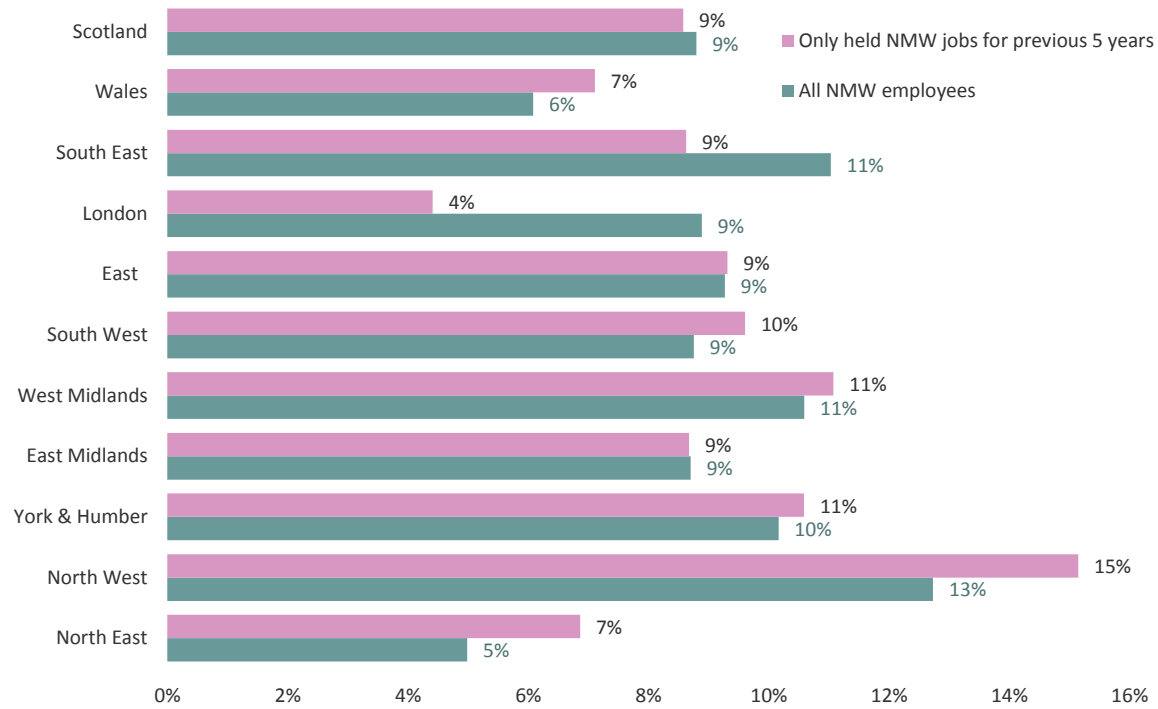
Source: Resolution Foundation analysis of NESPD.

It is important to get a sense of how these findings play out across the country. Our analysis indicates that although there is some regional variation, the proportions of people on the NMW and those who stay on it over time are roughly similar for most regions. The most striking exception to this is London.

As Figure 5 shows, although it has 9 per cent of all NMW earners, only 4 per cent of those who have failed to hold non-NMW jobs in the previous five years work in London. While London has a significant share of NMW workers, its labour market appears to be more dynamic or transitory. The South East is the only other comparable region, with 11 per cent of all NMW employees but 9 per cent of having been in the NMW labour for an extended time. At the other end of the scale, NMW workers in the North West have the greatest chance of being trapped. The region contains 11 per cent of all employees, 13 per cent of NMW workers and 15 per cent of the people who have only held a NMW job in the last five years.

Figure 5: Where in Britain do NMW employees and those who remain on the NMW work?

The regional distribution of NMW and employees who have not been employed at above the NMW (2012)



Notes: See Figure 3 above.

Source: Resolution Foundation analysis of NESPD.

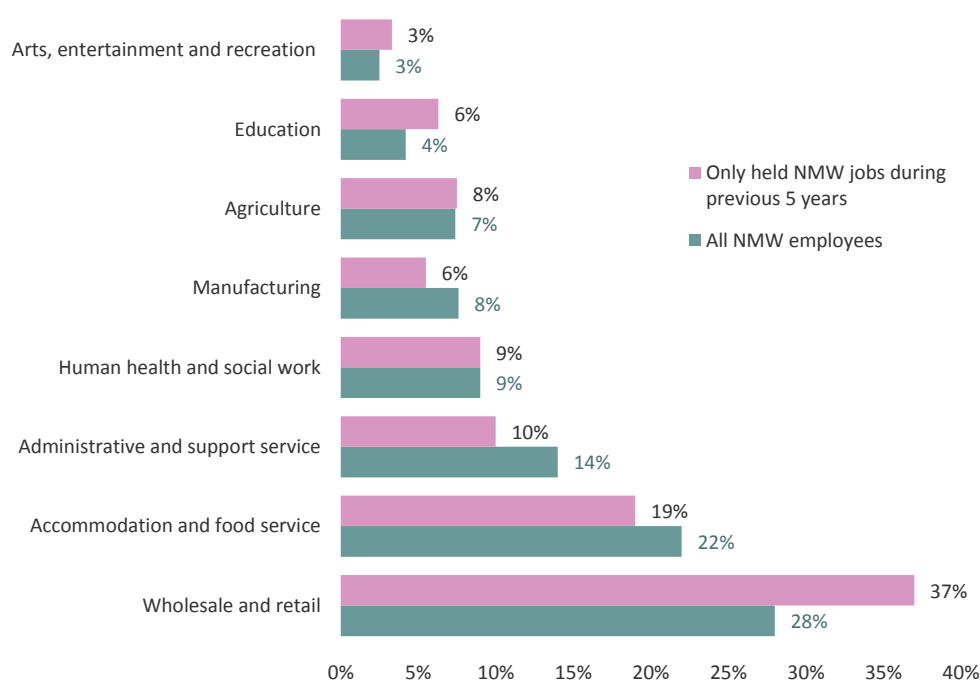
Employment characteristics

Having addressed the association between gender, age and region and remaining on the NMW, in this section we look at the importance of the types of jobs and working patterns of NMW employees. As discussed above, being in a NMW job need not be a concern if there are routes to better pay within the role. It is crucial then to establish to what extent that has occurred in different sectors and positions.

We find evidence that some parts of Britain's NMW labour market are more likely to contain long-term NMW workers than others. Part-time workers make up the majority (62 per cent) of those earning the NMW but account for 73 per cent of those who have not held jobs paying more than the NMW in the previous five years. When extended to 10 years, that figure rises to 77 per cent. Workers for small employers – those with 10 employees or fewer – also face an increased chance of having remained on the NMW. Firms of this size employ 14 per cent of all NMW workers but 16 per cent of those who are trapped.

Similarly, some industries⁵ are known to be low-paying and have large numbers of NMW earners within them. 28 per cent of all NMW employees work in the *Wholesale and retail* industry and 22 per cent work in *Accommodation and food services*. Yet 37 per cent of all long-term NMW employees work in *Wholesale and Retail*, more than the sector's share of the NMW workforce. *Accommodation and food services* on the other hand has a lower proportion of people remaining on the NMW across a five year period, with 19 per cent of the total.

Figure 6: Distribution of NMW and employees who have not been employed at above the NMW in the previous five years across industries (2012)



Notes: See Figure 3 above.

Source: Resolution Foundation analysis of NESPD.

⁵ The following sections consider industries, as defined by Standard Industrial Classification (SIC) 'Section' codes (2007).

As well as looking at industrial sectors, we can compare different occupations.⁶ Of all occupations, *Sales and customer service* roles are most strongly associated with remaining in NMW work. Nearly a third (32 per cent) of those who have been in NMW jobs for five years are in this occupation, despite the fact that it makes up less than a quarter (23 per cent) of NMW employment. *Elementary occupations*, which covers roles from cleaning to construction, has the biggest share of NMW workers - 42 per cent. However it makes up a roughly proportional share (41 per cent) of those who have stayed in NMW work for an extended period of time.

These descriptions of industries and occupations focus on the job someone is doing today. For a clearer sense of how an industry or occupation affects people's likelihood of remaining on the NMW, it is useful to zoom in on the people who have only ever been employed in the same industry or occupation in the time period.⁷ This helps us understand whether it is important to change jobs and, in particular, how good or bad it is for a worker's progression prospects to stay put in a particular industry or occupation.

Looking at NMW workers, we find that 19 per cent have only been employed in *Wholesale and retail* in the previous five years. However, this figure jumps to 34 per cent when we focus in on those who have not earned above the NMW for an extended period of time. Looking at *Accommodation and food services*, 11 per cent of NMW workers have stayed in this sector. This rises to 17 per cent among those who have stayed long-term in minimum wage work.

Across all occupations, the most striking result is for *Sales and customer service* roles. One-in-seven (14 per cent) NMW employees have only ever been employed in *Sales and customer service* roles. However, more than one-in-four (27 per cent) of those who have remained in NMW work for more than five years have only ever been employed in that occupation.

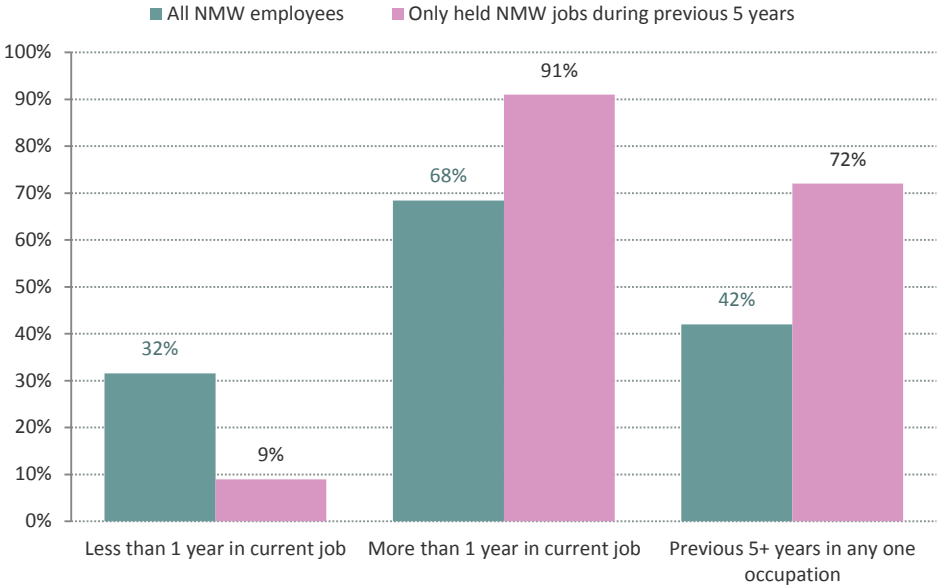
When we examine that question of the length of time people stay in their job, industry or occupation, those who have remained on NMW are less likely to have recently switched jobs.⁸ Figure 7 illustrates that while 32 per cent of all NMW employees have been in their job for less than a year, this falls to just 9 per cent when we look at those who have remained on the NMW, whether across five or ten years. When all those who have only ever been employed in a single occupation, whatever it may be, for the previous five years are combined, they account for 72 per cent of those who are stuck, compared to just 42 per cent of NMW workers overall.

⁶ The following sections consider occupations, as defined by Standard Occupational Classification (SOC) 'Major Group' codes (2010)

⁷ This refers to the survey reference period (April) for every year in the previous period in which they were in employment.

⁸ Other recent research suggests that low paid workers who change jobs see greater wage progression than those that do not; see for instance *Work in progress: Low pay and progression in London and the UK*, T. Wilson et al, 2013 http://www.cesi.org.uk/sites/default/files/publications/Work_in_progress_full.pdf

Figure 7: Distribution of all NMW employees and NMW employees who have not been employed at above the NMW by duration in current job or occupation (2012)



Notes: See Figure 3 above.

Source: Resolution Foundation analysis of NESPD.

Conclusion

The National Minimum Wage has been one of the most successful policies of recent decades yet there is now concern about the size of Britain's NMW workforce. This raises the vital question of the proportion of people who have been at the NMW for an extended period of time, rather than new entrants to the workforce. The evidence presented here suggests that 320,000 people did not progress beyond the lowest paid jobs in the previous five years. This makes up around 17 per cent of the NMW workforce.

There are encouraging signs for some: men, younger employees and those in London are less likely to have remained in NMW work. For parts of the UK's NMW workforce though – in particular women, part-time workers and those who ended up or remained in *Wholesale and retail* roles– the NMW has been a reality for an extended period of time.

Annex

Data

The analysis uses the New Earnings Survey Panel Dataset (NESP), a longitudinal version of the Annual Survey for Hours and Earnings (New Earnings Survey prior to 2004). The sample is drawn from HMRC PAYE records and represents a 1% sample of individuals registered for National Insurance based on the last two digits of the National Insurance Number (NINO). Employers of these individuals are contacted each year and asked to complete a short questionnaire and provide payroll information. As the same sample approach (based on the same final two NINO digits) is used each year, this allows the creation of a longitudinal panel. The NESP therefore tracks the same employees over time, from 1975 to 2012. This allows us to identify workers who remain stuck on the minimum wage from year to year. The key wage measure used is hourly wage excluding overtime (hexo). Since the calibration weights that are used for cross-sectional analysis of ASHE are not available in the NESP, the estimates of the proportions of employees with hourly earnings below or within 5p, 25p and 50p of NMW may differ slightly from any corresponding published estimates based on ASHE.

A full discussion of the key data issues and their implications is provided in a forthcoming report examining progression the Britain's low wage labour market.

Methodology

For the purposes of this paper employees are defined as being on minimum wage if they are paid up to or within 25 pence of the minimum wage. This applies to for all years back to 1997 in reference to the age-specific NMW rates that applied in the survey reference period for that year. The choice of 25p as the upper limit reflects its proximity to the NMW and the fact that due to 'rounding' effects there are large numbers of low paid workers that are clustered on focal points just about the NMW rate.⁹ These employees are to all intents and purposes NMW workers, even though they are not specifically paid the NMW rate. Results corresponding to alternative 5p and 50p bands are also presented below.

Employees are defined as having remained for an extended period of time on the minimum wage if they are earning the NMW in the current year, they entered the workforce at least five years ago and have only ever held a NMW job in the previous five years. This group therefore includes employees who in the previous period have cycled between NMW jobs and unemployment, work abroad, economic inactivity due to full-time education, family duties, retirement, etc. Importantly, it may also include some workers who have had spells in self-employment for which we do not have earnings data. Due to data issues, including undercoverage and non-response, the estimates of the size of this group may be upwardly biased, although the extent of this bias is likely to be small. This issue is discussed in detail in a forthcoming report on progression from low pay.

Since the data only provides annual snapshots of an employee's hourly earnings as of April each year, it is important to recognise that some of those who have remained long-term on the NMW may have been in non-NMW jobs at other times of year. In other words, some of them will not actually have been *continuously* on the NMW over the previous five years; they may have held non-NMW jobs at some point during that period, but never during the ASHE survey reference period in April.

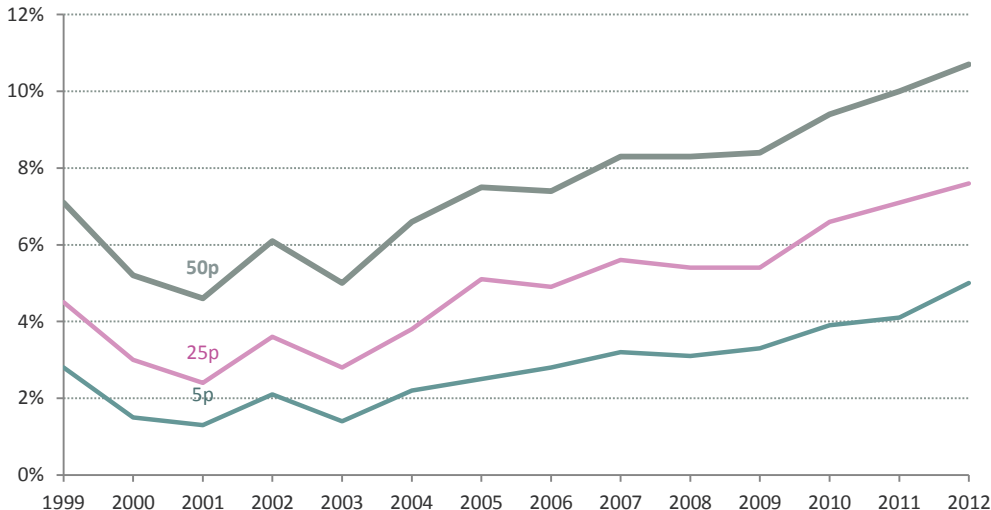
⁹ See for example *Behavioural aspects of the National Minimum Wage: measuring and interpreting behaviour in the low-wage labour market*, S. Fry and Ritchie, F., 2012
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226829/Behavioural_aspects_of_the_National_Minimum_Wage.pdf

Conversely, those who have not remained on the minimum wage are therefore those who entered the workforce at least five years ago and who have had at least one non-NMW job in the survey reference period for at least one year in the previous five years. Given the mixed composition of this group – including those who have suffered a drop in pay - caution should be used when drawing comparisons between the having remained for an extended period of time on the minimum wage if they are earning and NMW workers overall, since any differences are driven by this mixed group and are thus hard to interpret.

For comparison, the analysis also identified employees who have only been employed in jobs paying the NMW for 10 and 13 years. Employees are defined as having remained on the NMW over that duration if they are on minimum wage in the current year, they entered the workforce at least ten years ago and have only ever held a NMW job in the previous 10 or 13 years.

Comparison results under 5p, 25p and 50p bands

Figure 8: Percentage of all employees earning within specified bands of the NMW, 1999-2012



Source: Resolution Foundation analysis of NESPD.

Table 1: Comparison results under 5p, 25p and 50p bands

2012	% of all employees			% of all NMW employees			Total number of NMW employees who have only held jobs paying the NMW for duration		
	5p	25p	50p	5p	25p	50p	5p	25p	50p
5 years									
Only NMW jobs and joined workforce at least 5 years ago	1	1	2	12	17	22	142,467	324,236	564,957
Only NMW jobs and aged 21+	1	2	3	20	27	32	238,264	503,548	830,241
10 years									
Only NMW jobs and joined workforce at least 10 years ago	0	1	1	5	7		58,952	137,555	262,828
Only NMW jobs and aged 26+	1	1	2	11	15	18	135,098	280,022	476,529
13 years									
Only NMW jobs and joined workforce at least 13 years ago	0	0	1	3	5	7	36,845	90,884	181,769
Only NMW jobs and aged 26+	0	1	2	9	13	15	112,991	238,264	405,295

Notes: Employees are defined as being on the minimum wage if they are paid up to or within 5, 25 or 50 pence of the minimum wage.

Source: Resolution Foundation analysis of NESPD.

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The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

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- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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