Narrowing the youth gap

Exploring the impact of changes to the minimum wage on the incidence of low pay among young people

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In the Autumn Statement last month, the Chancellor announced big changes to the minimum wage. Alongside the announcement that the adult-rate minimum wage (the 'National Living Wage', or NLW) will increase by 10 per cent in April 2024, there were two important changes relating to the minimum wage rates that apply to young people. First, the NLW will be extended to 21-22-year-olds, who will get a wage increase of 12 per cent as a result. Second, the 'youth rates' that apply to 16-20-year-olds will go up even more quickly: by 15 per cent for 18-20-year-olds and 21 per cent for 16-17-year-olds.

These changes will have a tangible impact on the prevalence of low pay among young people. More than one-third (37 per cent) of young people aged 18-24 were in low hourly pay in 2022, more than double the rate among workers aged 25-64 (15 per cent). But the widespread incidence of low pay among younger workers means that minimum wage policy can make a real difference to this group, both directly and through spill-over effects. Between 2021 and 2023, for example, the proportion of 22-24-year-olds in low pay halved, from 25 per cent to 13 per cent.

The Low Pay Commission's ambitious yet careful approach should be continued, with the NLW extended to all workers aged 18 and over as soon as possible without leading to negative employment effects. But action is also needed reduce the incidence of low *weekly* pay, by boosting the working hours of young people alongside their hourly wages. We suggest three policy priorities: improving working conditions to make full-time work more attractive; reforming childcare to make full-time work more feasible for young parents; and boosting in-work support for the growing number of young disabled people.

The Chancellor announced large increases to the minimum wage at the Autumn Statement

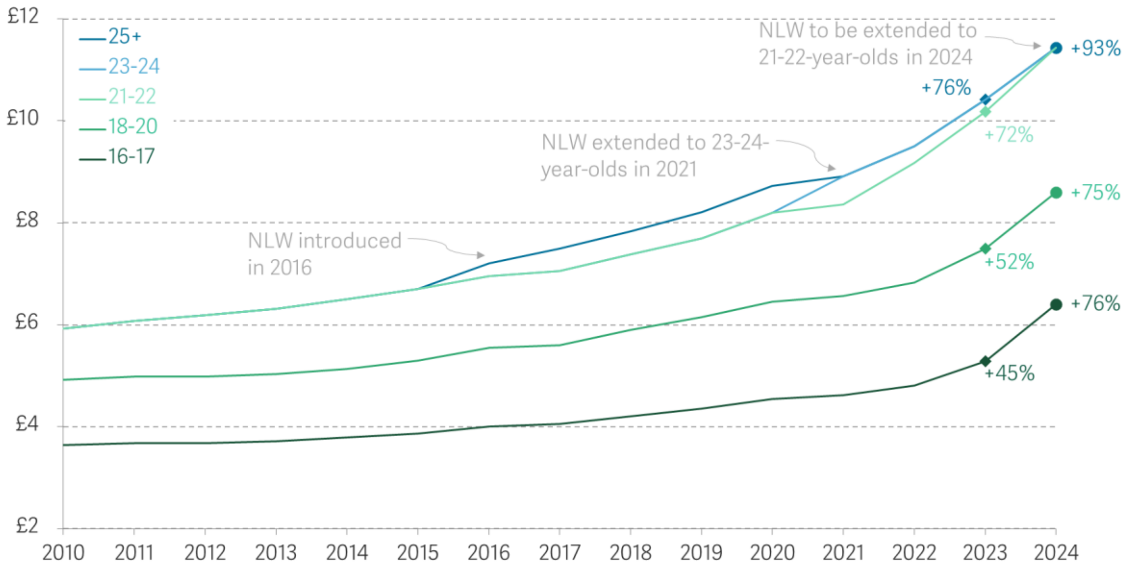
In the Autumn Statement last month, the Chancellor announced the minimum wage rates that will apply from April 2024. A large rise to the adult-rate minimum wage (known as the 'National Living Wage', or NLW) understandably made headlines, with the rise of 10 per cent (or £1.02) between 2023 and 2024 being the largest ever increase in cash terms. But in this Spotlight, we focus on the Chancellor's other minimum wage announcements: to introduce even larger increases to the minimum wage for younger workers (i.e. those aged 16-22) in April 2024.[1]

From April 2024, the NLW will be extended to all those aged 21 and above (as was first recommended by the Low Pay Commission (LPC) in 2019), meaning that those aged 21-22 – currently covered by a lower minimum wage rate – will benefit from a minimum wage increase of 12 per cent (£1.26). But it is younger workers aged 16-20 who will benefit the most. For 18-20-year-olds, the minimum wage will increase by 15 per cent (£1.11), while 16-17-year-olds will see their minimum wage increase by over a fifth (up 21 per cent, or £1.12).[2]

This large rise in the youth minimum wage rates is very welcome, not least because, as Figure 1 shows, the minimum wage rates that apply to workers aged 16-22 have lagged behind the NLW in recent years. In particular, between 2010 and 2023, the adult-rate minimum wage increased by 76 per cent in nominal terms, but the rates for 21-22-year-olds, 18-20-year olds and 16-17-year-olds have not risen nearly as fast, with increases of 72 per cent, 52 per cent and 45 per cent respectively. As the LPC noted in their 2023 summary of evidence, the result is a growing gulf between the adult and youth minimum wage rates: the 18-20-year-old rate, for example, has fallen from being worth 83 per cent of the adult rate in 2010 to just 72 per cent in 2023. The announced minimum wage rates for 2024 go some way to close this gap, with the 18-20-year-old rate set to rise to 75 per cent of the adult rate.

Figure 1 **The minimum wage is set to increase rapidly for younger workers in April 2024, but this has not been true in the past**

Minimum wage rates, and percentage change in nominal value since 2010, by age band: UK



Notes: Figures are in nominal terms.
Source: RF analysis of Low Pay Commission data.

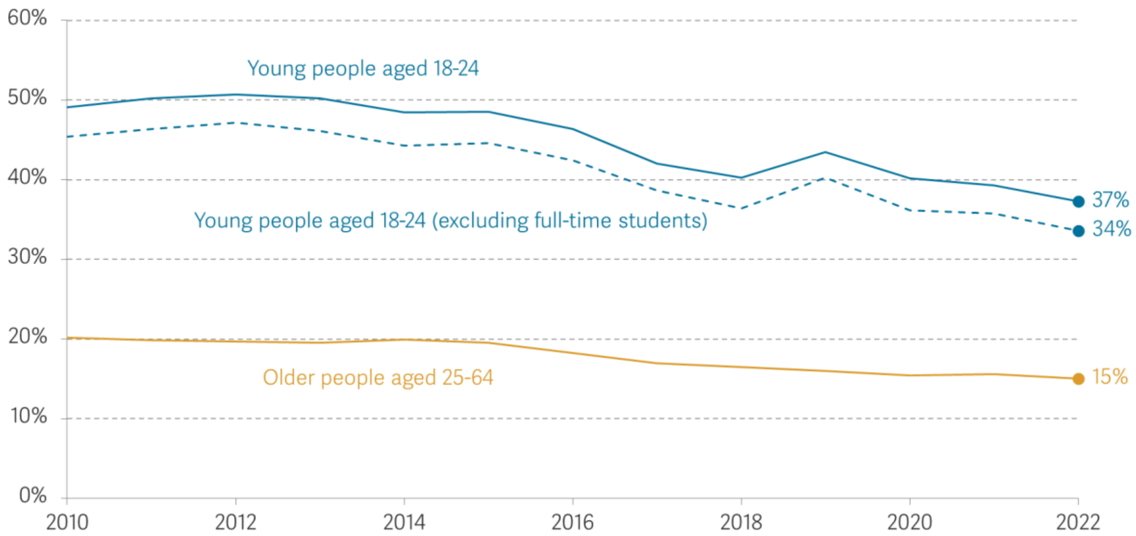
The incidence of low hourly pay among young workers has fallen sharply in recent years

One major consequence of the ramping up of the minimum wage – particularly since the introduction of the NLW in 2016 – has been a dramatic fall in low pay since the mid-2010s. The proportion of employee jobs that are low-paid (here defined as those with hourly pay below two-thirds of the median) fell from 21 per cent in 2015 to 11 per cent in 2022, and just 9 per cent in 2023.[3]

But although there has been a considerably reduction in the proportion of young people in low hourly pay, young people remain consistently more likely to be in low hourly pay than older people. As Figure 2 shows, more than a third (37 per cent) of workers aged 18-24 were in low hourly pay in 2022 – more than double the rate among older working-age adults (15 per cent among workers aged 25-64).[4]

Figure 2 **Young people are more likely than older people to be in low pay, even when full-time students are excluded**

Proportion of employees who are in low hourly pay, by age group: UK



Notes: Low hourly pay is defined as hourly pay below two-thirds of the median.
Source: RF analysis of ONS, Labour Force Survey.

Some might think that this is an unconcerning story about young people in full-time education: is it just that young people are more likely than older people to work in low-paid jobs to supplement their income while studying? But as Figure 2 makes clear, this is not the case. A sizeable minority of low-paid young people are in full-time education (in 2022, just over a quarter (27 per cent) of young people in low hourly pay were full-time students), but this is not skewing the results: excluding those in full-time education, young people aged 18-

24 are still more than twice as likely to be in low hourly pay than those aged 25-64 (34 per cent versus 15 per cent).

Others may think that low pay among young people is just a 'rite of passage' that does not warrant the attention of policy makers: young people simply tend to start out in low-paying sectors (such as retail and hospitality) before progressing into higher-paid work. It is of course true that young people are overrepresented in some low-paying sectors – for example, around half of workers in some low-paying hospitality jobs are aged 16-24, such as waiters and waitresses (50 per cent) and bar staff (48 per cent) – and many young people will, in time, move on to better-paid jobs. But progression cannot be taken for granted, and we should not ignore the living standards impact of even a temporary spell in low pay.

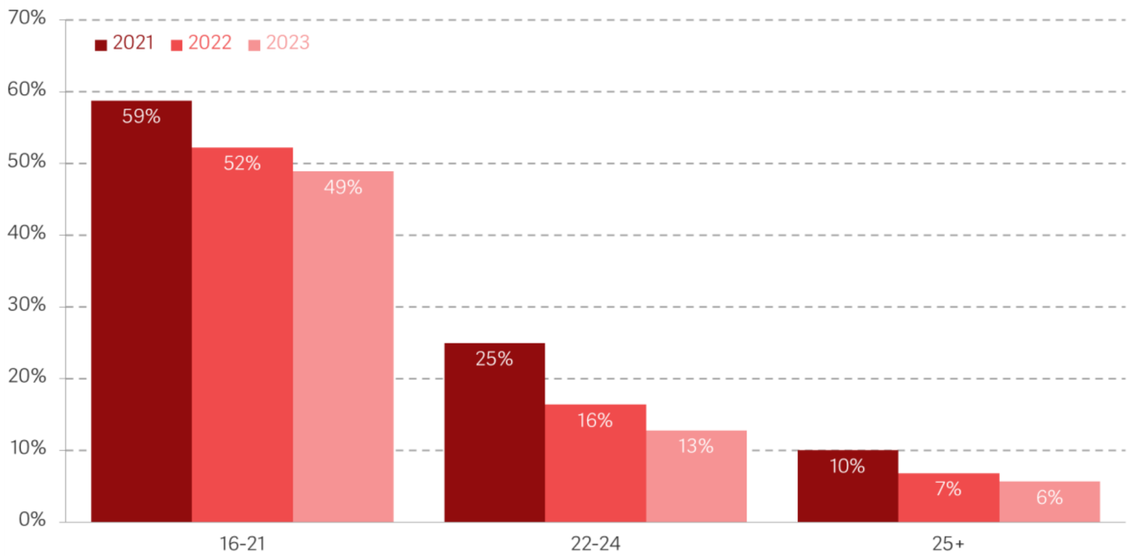
Increasing youth minimum wage rates has tangible impacts on low hourly pay

Youth minimum wage rates have large impacts on the incidence of low pay among young people because a large share of young people work in jobs at the wage floor. Indeed, coverage of the youth minimum wage among young people is higher than the coverage of the adult minimum wage rate among older people: among young people aged 21-22, 11 per cent were covered by the youth minimum wage rate in 2023, compared to overall minimum wage coverage of 5 per cent, with a further 8 per cent of those aged 21-22 paid more than their age-related minimum wage but less than or equal to the NLW.

Past minimum wage changes clearly show how the minimum wage affects low pay among young people. When the NLW was extended to 23-24-year-olds in 2021, low pay among young people began to fall sharply: among 22-24-year-olds (the closest age group available in published data), the proportion in low pay halved between 2021 and 2023, from 25 per cent to 13 per cent. By contrast, progress has been far slower for 16-21-year-olds who have seen more modest increases to their age-related minimum wages: low pay among this group fell by only a sixth, from 59 per cent in 2021 to 49 per cent in 2023 (see Figure 3). This meant that, by April 2023, young people aged 16-21 were almost four times as likely to be in low pay than those aged 22-24 – up from just over twice as likely in 2021.

Figure 3 **Low pay has been falling dramatically– but those aged under 22 have seen the least progress**

Proportion of employee jobs that are low hourly paid, by age group and year: UK



Notes: Low hourly pay is defined as hourly pay below two-thirds of the median.
Source: RF analysis of ONS, ASHE; ONS, Labour Force Survey.

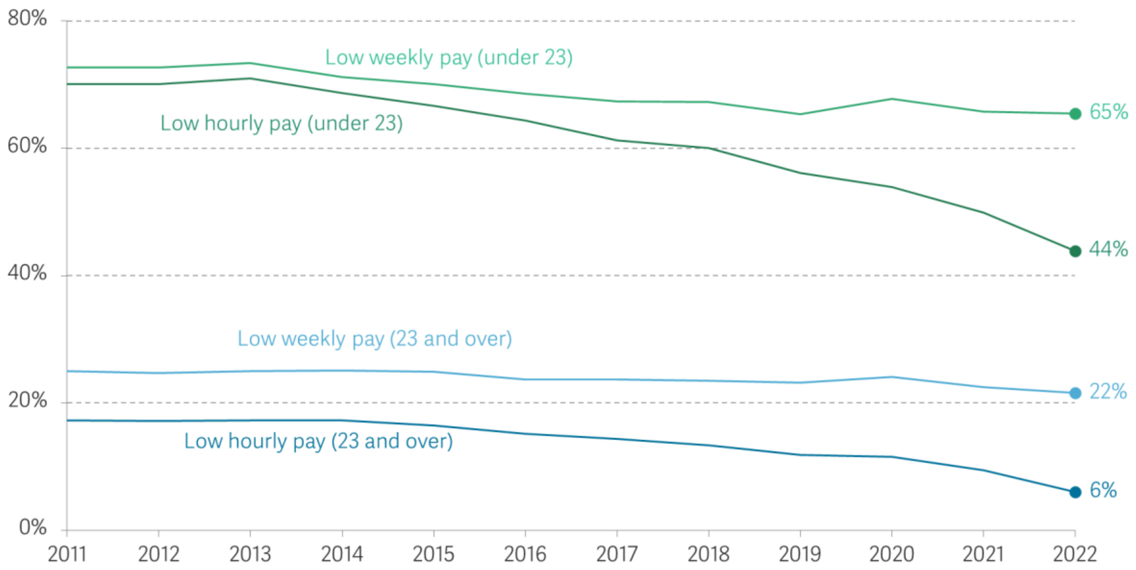
The minimum wage has less of an impact on young people's low weekly pay than low hourly pay

It's clear that increases to the youth minimum wage rates are having an impact on young people's pay prospects – and last month's Autumn Statement announcements mean this is only set to continue.

But if our ultimate concern is young people's living standards, then boosting the minimum wage alone is not enough. It has clear impacts on *hourly* pay, but is less able to influence young people's weekly pay, which depends on working hours as well as hourly wage rates. This can be seen clearly when we look at overall low pay trends since 2015, with low weekly pay falling much less quickly than low hourly pay. As Figure 4 shows, this is also true for workers aged under 23: between 2015 and 2022, low hourly pay fell from 67 per cent to 44 per cent in this group, whereas low weekly pay fell from 70 per cent to 65 per cent.

Figure 4 **Low hourly pay has been falling sharply, but there has been less progress on low weekly pay**

Proportion of employee jobs that are in low hourly pay and low weekly pay, by age group: UK

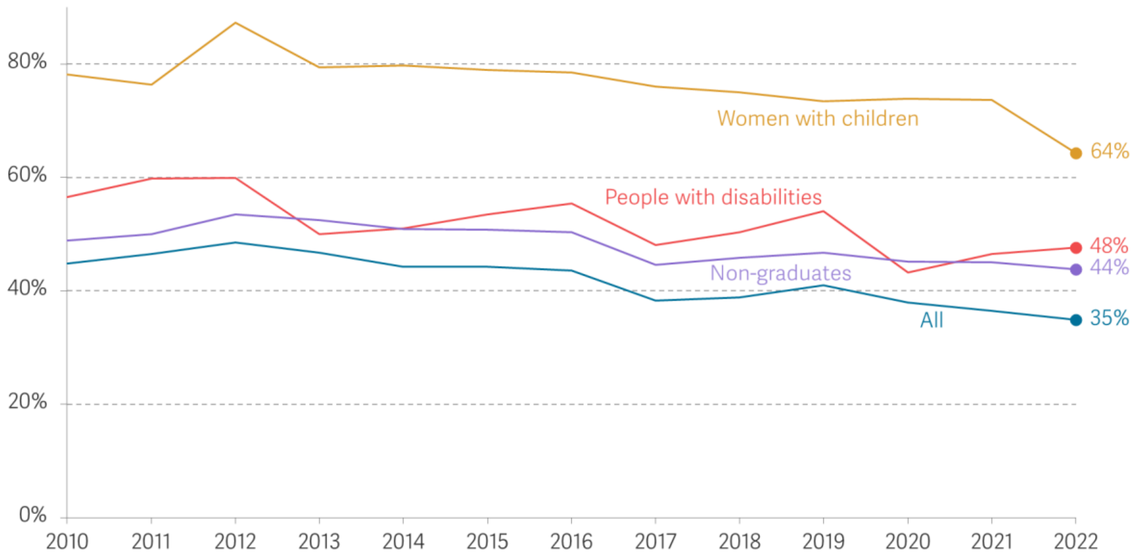


Notes: Low pay is defined as pay below two-thirds of the median.
Source: This chart replicates Figure 3.10 in: Low Pay Commission, Low Pay Commission Report 2022, January 2023.

Even if young people working full time with low costs can achieve a decent standard of living while receiving their age-related minimum wage, it's less clear that those working part time can achieve the same. This matters because young people are more likely than older people to be working part time involuntarily: almost half (47 per cent) of non-student young men who work part time, and a third (33 per cent) of non-student young women, are doing so because they cannot find a full-time job, compared to a quarter (25 per cent) of men, and less than one-in-ten (8 per cent) women aged 25-64 who work part time.

At the same time, many young people need to work part time due to childcare responsibilities or as a result of ill health. And, as Figure 5 shows, certain groups of young people are disproportionately likely to be in low weekly pay. Among non-students, almost two-thirds (64 per cent) of young women with children, and close to half of disabled young people (48 per cent), are in low weekly pay, compared to just over a third (35 per cent) of non-student young people overall.

Figure 5 **Almost two-thirds of young mothers have low weekly pay**
Proportion of employees aged 18-24 who are in low weekly pay, by selected demographics (excluding full-time students): UK



Notes: Low weekly pay is defined as weekly pay below two-thirds of the median.
Source: RF analysis of ONS, Labour Force Survey.

We should build on the success of the minimum wage – but policy makers must go further to tackle low weekly pay

A dual strategy, then, is needed: action to reduce the incidence of low hourly pay among young people via changes to the minimum wage, and a concerted effort to increase the working hours of young people stuck in low weekly pay.

On the former, the approach currently taken by the LPC – of increasing the youth minimum wage rates "as high as possible without damaging the employment prospects of each group"– should be continued, to allow young people's hourly wages to catch up with those of older workers. We await further information from the LPC about their post-2024 minimum wage framework, but, so long as there continues to be no evidence of undesirable employment effects, extending the adult-rate minimum wage to all workers aged 18 and over should be a policy priority over the coming years.[5]

But we also need a multi-faceted approach to boosting the working hours of young people. To start, this should involve improving working conditions, to make it more desirable for young people to increase their working hours. In recent focus groups we heard that many young people were 'satisficing': working enough hours to pay the bills, but choosing not to work full-time to minimise the time spent in unpleasant or unsatisfying jobs. As one participant put it: "if I had a job that I actually liked going to, then I'd increase my hours straight away." A package of reforms to improve the quality of work should include introducing a right to a contract with minimum hours that reflect the worker's usual work pattern, a right to at least two weeks' advance notice of shifts, and compensation for late changes.

There should also be specific policy changes to support groups at the sharp end of the low pay problem, notably young women with children and disabled young people. For women with children, reforms to the childcare and benefits systems are vital. Changes to the Universal Credit childcare system announced in the Spring Statement are welcome, but more should be done: ultimately, childcare support should be removed from the Universal Credit system and instead funded directly through a universal childcare model. Not only would this simplify the landscape for low-income parents, it would also boost work incentives: many parents in receipt of Universal Credit are cautious about changing their working hours for fear of the knock-on impact this will have on their benefit award. For the rising number of young disabled people, better in-work support is required, such as increasing funding for the successful Access to Work scheme and expanding the provision of occupational therapy.

Finally, it is of course worth remembering that not all young people can work full time, and there must be a sufficient safety net to ensure that those who can't work full time still have a decent standard of living. At the moment, young people aged under 25 receive less support through Universal Credit than their older counterparts (the standard allowance for a single person aged under 25 is £77 a month less than for a single person aged 25 and above). This should be revisited, with – at a minimum – young single parents awarded the main rate of Universal Credit.[6]

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[1] In this Spotlight we focus on employees only, as the minimum wage does not apply to self-employed people.
[2] In the Autumn Statement, the Chancellor also announced a large increase to the apprentice rate minimum wage: like the 18-20-year-old rate, this will increase by £1.12 (22 per cent).
3 RF analysis of ONS, Low and high pay in the UK: 2023, November 2023.
4 Figures 2 and 4 use data from the Labour Force Survey, unlike Figures 1 and 3 which are based on Low Pay Commission analysis of the preferred Annual Survey of Hours and Earnings (ASHE) data. This is because ASHE has very limited data on personal characteristics. Due to the differences between these two datasets, the low pay figures shown in Figures 1 and 3 do not exactly match those in Figures 2 and 4.
[5] In November 2023, the Low Pay Commission noted that "our current thinking is that we should move towards an adult rate that begins at age 18". See: Low Pay Commission, Letter from Bryan Sanderson with LPC recommendations for 2024, November 2023.
[6] For more detailed policy proposals on how to improve the benefits system for young people, see: L Gardiner & F Rahman, A fraying net: The role of a state safety net in supporting young people develop and transition to an independent, healthy future, Resolution Foundation, October 2019.