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Economic impacts of the National Living Wage

By Feargal McGuinness
Marianne O'Neill

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1. What is the National Living Wage?

A new 'National Living Wage' (NLW) was announced by the Chancellor of the Exchequer at the 2015 Summer Budget. It means a substantial increase in the National Minimum Wage (NMW) for workers aged 25 and over, which was set at £6.70 per hour in October 2015. It will be introduced at an initial rate of £7.20 per hour from April 2016 and it effectively takes the place of the NMW for workers aged 25 and over.[1]

The Government intends for the NLW to reach 60% of median earnings by 2020. It has asked the Low Pay Commission (LPC), which currently recommends the level of the NMW, to set out how this may be achieved. The Office for Budget Responsibility (OBR) estimates this would mean the NLW will be around £9 per hour in 2020, based on its forecasts for average earnings.[2]

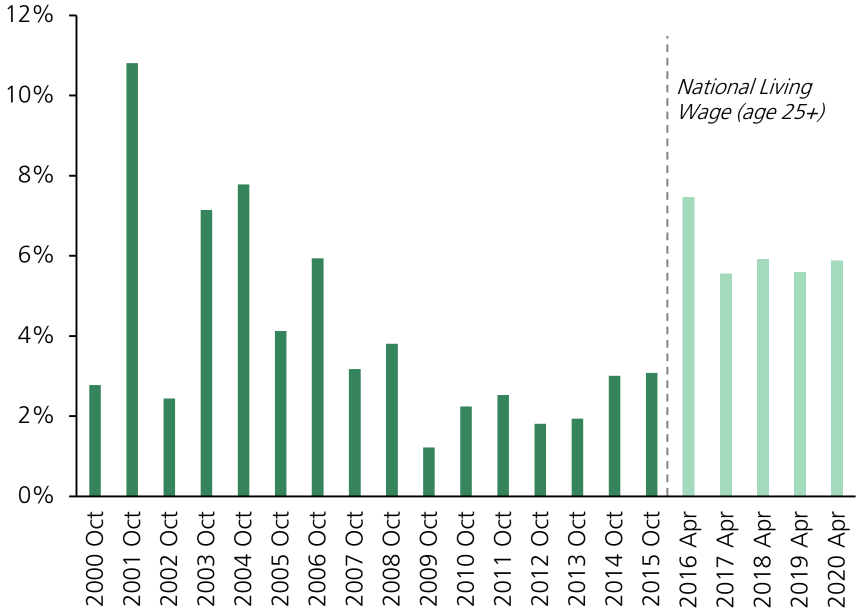
The LPC considers that the biggest winners are low-paid workers, with around 1.8 million workers expected to be paid at the £7.20 introductory rate in April 2016. However, there are uncertainties regarding the wider impacts of the NLW, and there may be some negative impact on employment and hours worked. The OBR has suggested the NLW could increase unemployment levels in 2020 by somewhere in the range of 20,000 to 120,000 people.

The NLW means several years of substantial increases in the minimum wage for older workers, as shown in the chart. Previous large increases in the NMW rate were from a considerably lower base, meaning there is little evidence about the effect of minimum wage increases on this kind of scale. The impact on employment, profits and productivity will largely depend on how employers choose to respond to the higher staff costs resulting from the change, as discussed in this note.

1 The differences between the National Minimum Wage and National Living Wage are explained in an article by David Norgrove, Chair of the Low Pay Commission, on the Low Pay Commission blog.

2 OBR, Economic and Fiscal Outlook, Mar 2016

% change in adult rate of National Minimum Wage/National Living Wage compared to previous rate



Notes: Assumes NLW follows the illustrative path set out in the OBR Economic and Fiscal Outlook March 2016 (Supplementary Table 1.19) from £7.20 in April 2016 to £9 in 2020: in reality the path by which the NLW is increased and its value in 2020 may be quite different. Adult rate of NMW applied to workers aged 22 and over from 1999 to 2010 and to workers aged 21 and over from 2010 onwards.

2. Impact on employees

The NLW means an increase in hourly pay for employees aged 25 and over who would otherwise be paid below this level. Additionally there may be some 'spillover' effects – employers may choose to increase pay for employees currently earning just above the level of NLW or for younger workers aged under 25, in order to maintain pay differentials between staff.

There are also likely to be indirect effects on staff numbers, recruitment, and hours worked, as employers seek to manage the impact on wage bills. The higher labour costs faced by employers may have a negative effect on total employment and hours worked across the economy. These indirect effects are much harder to quantify.

2.1 Effect on pay

Numbers affected

Government estimates indicate 1.8 million employees aged 25 and over will be paid at the NLW in 2016, who would otherwise be on a lower rate of hourly pay.[3] OBR analysis suggests this will rise to 2.75 million employees by 2020, with a further 3.25 million benefitting from spillover effects.[4]

Impact on different groups

The Low Pay Commission[5] estimates that effects of the NLW will vary by age group, industry, occupation, firm size and between the regions within the UK.

The LPC estimates of the number of people benefiting from the NLW show:

- More female employees benefit than male employees, since women are more likely to be employed in low-paid roles.
- A higher share of part-time employees than full-time employees are affected.
- A higher share of employees aged 25-30 and aged 66 and over receive a pay increase, compared to other age groups[6].

The LPC's estimates of coverage of the NMW/NLW presented in the chart below show how the number of employees affected varies by region. Spillover effects are not included.

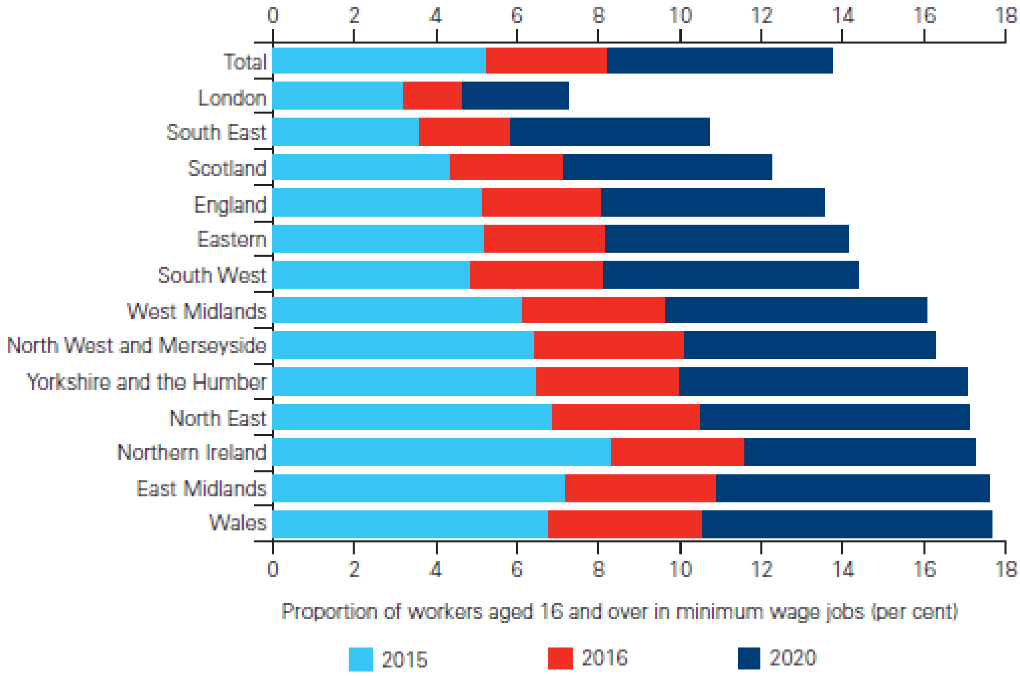
[3] Department for Business, Innovation and Skills (BIS), *Impact Assessment – Amendment to the National Minimum Wage regulations 2015 – introducing the National Living Wage*, 30 November 2015

[4] OBR, *Economic and Fiscal Outlook, November 2015*, page 62.
The Resolution Foundation has published a slightly higher estimate of 1.9 million employees benefitting from the NLW in 2016 (excluding spillover effects), rising to 3.2 million in 2020. Including spillover effects, 4.5 million employees are estimated to benefit in 2016 rising to 6 million in 2020. See Conor D'Arcy, Adam Corlett and Laura Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation Report, 2 September 2015

[5] Low Pay Commission, National Minimum Wage Report Spring 2016

[6] Ibid

Coverage of the NMW/NLW for Workers Aged 16 and over, by country and region, UK, 2015-2020



Source: LPC estimates of earnings using: ASHE 2010 methodology, April 2015, low-pay weights, including those not on adult rates of pay, UK; and OBR average hourly earnings growth forecasts, November 2015. Note: Data exclude Year One apprentices.

Increase in pay

The OBR has estimated average gains for workers benefitting from the NLW in 2020. Including people affected by spillover effects but ignoring indirect effects (such as reductions in employment or hours), the average increase in pay is around £11 a week.

The average increase in hourly pay is highest for workers who would otherwise be paid at NMW. Clearly increases are smaller for workers who would otherwise be paid between NMW and NLW, or those already paid above the NLW benefitting from spillover effects.[7]

> Around ¾ million employees otherwise earning the National Minimum Wage (NMW) would on average see an increase in weekly pay of £28. Around 2 million people moving from above the NMW to at least the NLW would gain £15 a week on average. Finally, we have assumed that there will be a wage 'spillover' for employees earning up to the 25th percentile of the wage distribution, affecting 3¼ million people, but by a much lower £4 per week on average. The average increase across these three groups is around £11 a week. But these figures ignore how firms choose to respond.[8]

Once possible indirect effects are included in the OBR model, the average increase in pay falls to around £6 a week. The OBR assumes firms will reduce total hours worked in response to the NLW, with the reduction shared between lower employment and lower average hours:

7 The average weekly gain is also larger for full-time employees than part-time employees, since full-time employees work more hours.

8 OBR, *Economic and Fiscal Outlook, November 2015*, p62

> This results in the average increase in weekly earnings for those affected falling to around £6 a week. Within that, unemployment would be around 60,000 higher than in the absence of the NLW. That could result from firms firing members of their existing workforce or reducing hiring so that the workforce adjustment happens during the normal turnover of employees. As the policy increases unit costs for firms, we assume that they pass some of those costs through to consumers in higher prices, as well as see a fall in their profits.[9]

Of course, these indirect effects will vary greatly between different industry sectors and groups of employees. The increase in costs presented by the NLW will be greatest for those sectors with the highest numbers of low-paid workers. Impacts by sector are discussed further in section 3.

The Low Pay Commission has come up with separate estimates, suggesting that "a typical minimum wage worker will receive an additional £340 for the increase to £7.20, and about £1,175 for the increase to £9.16 [the then estimated value of the NLW in 2020], relative to what they would have earned through forecast average earnings growth."

However, the increase in earnings received by employees depends on the value of the NLW by 2020. The OBR revised down its forecast for the value of the NLW in 2020, from its initial July 2015 forecast of £9.35 per hour to a March 2016 forecast of £9.00 per hour.[10]

The Resolution Foundation has also published estimates of the average annual gain in wages in 2016 and 2020 for those employees who will see their pay increase as a result of the NLW. [11]

2.2 Effect on employment and hours

The National Minimum Wage appears to have had very little negative impact on employment since its introduction in 1999. Whether the same will be true for the NLW is yet to be seen: the National Minimum Wage was introduced at a low level and raised progressively. As noted by the Low Pay Commission, "There is little evidence about increases of this scale and modelled impacts are very uncertain."[12]

The Office for Budget Responsibility estimates the NLW may lead to an increase in the unemployment rate of around 0.2% points in 2020, meaning around 60,000 more people would be unemployed and total hours worked per week across the economy would be around 4 million lower. However, as the OBR points out, these estimates are highly uncertain and starting off from slightly different assumptions is likely to lead to different conclusions.[13] The OBR suggests a low estimate for the rise in unemployment of 20,000 and a high estimate of 120,000.

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9 Ibid, p62

10 Low Pay Commission, National Minimum Wage Report Spring 2016, para 2.65, p 74

11 Conor D'Arcy, Adam Corlett and Laura Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation Report, 2 September 2015

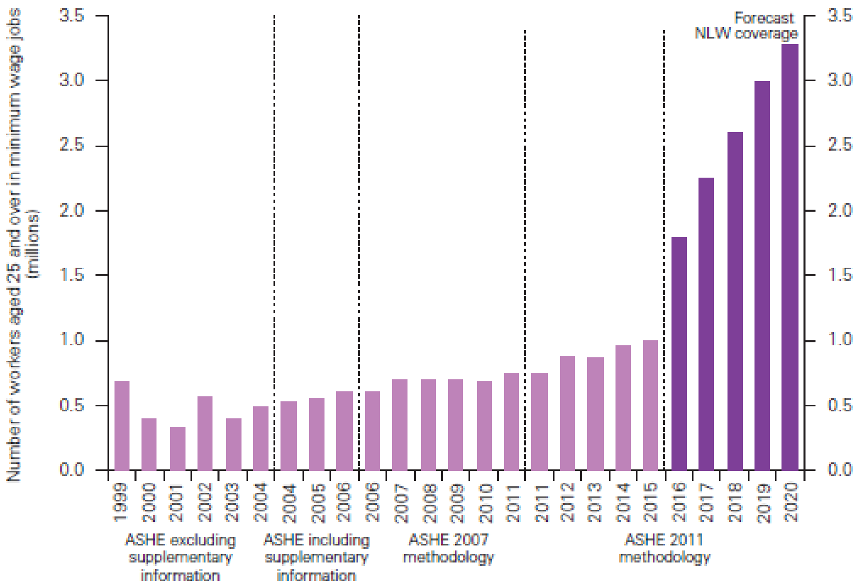
12 Presentation by David Norgrove, Chair of Low Pay Commission, on *Low pay, productivity and the National Living Wage*, 21 September 2015

13 OBR, *Economic and fiscal outlook, July 2015*, Annex B

2.3 Coverage of National Minimum Wage and NLW

The NLW could lead to a large increase in the number of people paid at the minimum wage for their age group. The Low Pay Commission estimates that around 3.7 million jobs are likely to be paid at one of the National Minimum Wage rates (including the NLW) by 2020. One-in-six employee jobs in the private sector held by people aged 25 and over would likely be paid at NLW.[14]

Coverage of National Minimum Wage and National Living Wage to 2020, Low Pay Commission estimates



Source: LPC estimates of earnings using: ASHE, low-pay weights, including those not on adult rates of pay, UK, 1999-2015; and OBR average hourly earnings growth forecasts, November 2015. Note: Data include apprentices for all years. It is not possible to identify apprentices prior to 2013

[14] Low Pay Commission Report Spring 2016, Figure 2.8, p86

3. Impact on employers

The estimates of employees affected by the NLW generally do not take into account wider economic effects of the NLW. Firms may react to the higher wage costs presented by the NLW in different ways: for example, they could reduce staff numbers or hours or change the composition of their workforce (perhaps by taking on staff aged 24 or under who are not eligible for the NLW, in place of staff aged 25 and over), or may pass on the higher wage cost to consumers in the form of higher prices.

The Low Pay Commission[15] consulted stakeholders for their Spring 2016 report. All employers that responded were concerned about the uncertainty surrounding the introduction of the NLW and the impact that this would have on their business. Broadly the views of employers fell into three groupings, as follows:

1 Supportive of the NLW, and thought it affordable.

2 Concerned about the introductory rate of £7.20. This was mainly in the social care, small retail, agricultural and textiles sectors, and some Small and Medium Sized Enterprises (SMEs).

3 Considered that the introductory rate of £7.20 was manageable in April 2016, but had doubts about the £9 rate in 2020, equivalent to 60% of median earnings. Many firms were in this group.

3.1 Labour costs to firms

The Government estimates the total annual cost to employers of implementing the NLW at £7.20 per hour in 2016/17 is £1.1 billion. The cost of raising the pay of those who would otherwise be paid less than the NLW is estimated at around £840 million, while spillover effects represent a cost of around £280 million. Also included is the cost to firms who have to familiarise themselves with the new policy. Figures include both wage costs and non-wage labour costs such as employers' National Insurance contributions. [16]

3.2 Impact by sector

Employer impacts can also be expected to vary by industry: the increase in wage costs presented by the NLW will be largest in sectors which have higher numbers of low-paid employees. The Resolution Foundation estimates that the increase in employer wage bills will range from very little change in some sectors such as finance & insurance and public administration & defence, to a 3.4% increase in the wage bill of the accommodation & food services sector. Just under half of all employees set to benefit by 2020 work in three broad sectors, with a large share of the workforce in each sector set to be affected: wholesale & retail, administrative & support services, and accommodation & food services.[17] The Low Pay Commission notes the strongest critical response

[15] Low Pay Commission Report Spring 2016, para 2.7, p56

[16] Regulatory Policy Committee, *Opinion Final Stage Impact Assessment*, 4 December 2015

[17] Conor D'Arcy and Adam Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation report, 15 September 2015

to the NLW has come from the social care sector, regarding its own ability to manage the introduction of the NLW, as they expect to be particularly hard hit by the associated increase in costs.

The Low Pay Commission has estimated the percentage of employees (of all ages) likely to be paid at or below the relevant National Minimum Wage (NMW) rate or NLW rate at 2020 for different low-paying industry sectors, as shown in the table below. In cleaning, hospitality and retail, the NLW is expected to equal median pay for employees aged 25 and over by 2020.[18]

Impact of NLW in low-paying industry sectors by 2020

Industry	2016		2020	
	Number of min wage jobs (000s)	Share of all workers in the sector on min wage (%)	Number of min wage jobs (000s)	Share of all workers in the sector on min wage (%)
Total	2,192	8.2	3,685	13.7
Non low-paying sectors	578	3.0	1,166	6.1
Low-paying sectors	1,614	21.0	2,519	32.5
Retail	511	17.1	925	30.9
Hospitality	447	31.1	579	40.3
Social Care	182	18.0	322	31.8
Employment Agencies	123	18.1	164	24.2
Cleaning	118	40.8	159	55.2
Food Processing	57	14.6	105	26.9
Leisure	66	15.4	92	21.5
Childcare	46	21.7	76	35.7
Hairdressing	35	33.7	46	44.6
Agriculture	16	12.0	29	22.0
Textiles	14	20.6	22	31.4

Source: Low Pay Commission 2016 Report, Table 2.8

Social care

A Resolution Foundation Report on Social Care[19] discusses the impact of the NLW in greater detail for this sector and estimates the increase in payroll costs (wages, employer, National Insurance and pensions contributions) at £2.3 billion by 2020, benefiting 1 million care workers. They also note “the severe challenge facing the care sector”: the NLW would mean higher hourly pay for around half of employees working in residential care in 2020:

> The social care sector spans both the public and private sectors. In practice however, the impact of the NLW on the industry is likely to be strongly influenced by the funding allocated by government to local authorities. The NLW therefore has the potential to exacerbate existing problems around low pay in the sector: social care has been consistently

18 BIS has also calculated estimates of the proportion of employees in each sector paid at the NLW in 2016. See Annex 2 of the Impact Assessment for the *Amendment to the National Minimum Wage regulations 2015 – introducing the National Living Wage*, 30 November 2015

19 Laura Gardiner, *Care to pay? Meeting the challenge of paying the National Living Wage in social care*, Resolution Foundation Report, November 2015

> flagged as a barrier to faster minimum wage increases and one in which non-payment of the NMW is already occurring.[20]

The Low Pay Commission notes in its 2016 report that it received the strongest criticism of the introduction of the NLW from representatives of the social care sector, where "a number of reponses warned that a £7.20 rate would have serious implications for a sector already in crisis." The Commission summarises some of the evidence received from social care providers: [21]

> The UK Home Care Association (UKHCA), representing domiciliary care providers, reported that fees paid by local authorities averaged £13.66 in September 2014 against a UKHCA recommended minimum of £15.74– before the NLW takes effect. It thought the £7.20 rate would require a minimum fee of £16.70 an hour. It cited results from a September 2015 survey of its members, where 74 per cent of providers said 'they would have to look to cease or reduce their supply to councils with which they trade'. It thought the homecare market was set to run at a deficit of £753 million in 2016/17. In an open letter to the Government, UKHCA said that unless the additional costs of the NLW were fully-funded it saw a 'serious risk of catastrophic failure' to support people who received state-funded care at home.
>
> In residential care, the level of concern was reflected in the five biggest providers (Four Seasons Health Care, Bupa UK, HC-One, Care UK and Barchester Healthcare) also writing to the Chancellor calling for more funding before the Spending Review. As we highlight in Chapter 8, the real value of local authority fees for care home residents has been falling for a number of years. The evidence we received suggested that funding risks to care home providers varied by operator and region, depending on their reliance on local authority fees. Operators in the South East, South West and Eastern England had been helped by a greater proportion of private payers, whereas the industry in other parts of the country, such as the North East, was much more dependent on local authorities alone so was particularly exposed.

Retail

The Association of Convenience Stores also provided a submission to the Low Pay Commission[22] that their industry would struggle with the £7.20 introductory rate, estimating related costs to the sector of £167 million, as new workers are only paid around £6.65 at present. Due to competitive pressures from larger shops this cost most probably would not be passed onto their consumers in higher prices. Their concerns were that ultimately this would lead to diminished benefits for existing employees including reduced staff hours and numbers, and perhaps to store closures.

A report by the British Retail Consortium, the trade association for UK retailers, states that the industry "supports the payment of the National Living Wage" but warns the number of jobs in the retail sector is set to reduce significantly and the National Living Wage and Apprenticeships Levy could speed up the rate at which this happens.[23] The report suggests that technological change, property leases coming up for renewal and rising labour costs could mean there are up to 900,000 fewer jobs in retail by 2025 but this

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[20] Ibid, p27
[21] Low Pay Commission Report Spring 2016, para 2.15-17, pp58-59
[22] Low Pay Commission Report Spring 2016, para 2.20, p61
[23] British Retail Consortium, *Retail 2020: Fewer but better jobs*, 29 February 2016

will be accompanied by improvements in productivity and pay. The report calls for the Low Pay Commission to be given a clear mandate to moderate the impact of increases in the NLW and to review the new NLW structure, including the potential for variations by region.

3.3 Firm size

Although the majority of employees set to benefit from the National Living Wage work in large firms, the proportion of employees affected (and thus the increase in wage costs) is highest for the smallest firms. Small firms tend to have a higher share of staff employed at the National Minimum Wage.[24] The Government estimates that a third of the direct costs to businesses in 2016 (i.e. excluding discretionary spillover effects) will fall on small and micro-businesses with fewer than 50 employees.[25]

The Low Pay Commission estimates that 25% of employee jobs in micro firms (with fewer than ten employees) will be paid at the National Minimum Wage (including the NLW) in 2020. Around 17% of workers in other small firms (with between 10 and 49 employees) are expected to be paid at the minimum wage.[26]

In large firms (with at least 250 employees), around 11% of employees are expected to be paid at the minimum wage in 2020. However, the proportionate rise in coverage between 2015 and 2020 is greater than for small firms: in 2015, 42% of minimum wage jobs were in large firms but this is set to rise to 52% by 2020.

3.4 How will employers respond to higher wage bills?

The Low Pay Commission[27] was told by employers that they expected to cope with the introduction of the NLW initially by: consolidating wider reward packages; reducing premium payments; squeezing pay differentials; considering raising prices; reducing profits; and reducing hours. Most employers had not thought beyond the 2016 consequences, and thought that longer term adjustments for 2020 would require more structural changes to their business to adapt to higher wage bills.

Business groups have also expressed concern about the possible effects of the NLW. The CBI has warned of a "dramatic impact" on companies' profitability and hiring. The Federation of Small Businesses has pointed out that small firms "will have less than a year between announcement and enforcement to deal with hefty pay rises and thus, a sudden jump in costs," meaning businesses may need to renegotiate contracts or raise prices. [28]

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24 Low Pay Commission, 2015 Report, Figure 2.1
25 BIS Impact Assessment, pp27-8
26 Low Pay Commission Report Spring 2016, Table 2.6, p88
27 Low Pay Commission Report Spring 2016, para 13, p xvii
28 "Living wage will hit profits and jobs, warns new CBI head", *Financial Times*, 8 September 2015; "UK employers fear impact of living wage, says recruitment group", *Financial Times*, 8 September 2015; "Success of living wage gamble will depend on employers' response", *Financial Times*, 30 Nov 2015

Employers could respond to the higher wage costs presented by the NLW in a number of ways: They could raise prices to cover their higher staff costs, acknowledge that they are going to have lower profits, or boost the skills and efficiency of their staff to justify the increased cost. Alternatively, they could reduce their workforce or look for alternative efficiencies using technological developments, ultimately leading to lower levels of employment.

A survey of employers by the CIPD and Resolution Foundation found that over half of employers (54%) expected the NLW to have an effect on their wage bill. The survey asked employers about how they intended to manage the increase in wage costs:[29]

> Asked for the three most important things they plan to do in response to the NLW, employers are most likely to say they intend to manage these higher costs by improving efficiency / productivity, with almost a third (30%) of employers intending to do this.
>
> Taking lower profits / absorbing costs is the next most popular response (22%), followed by reducing overtime and bonuses (16%), raising prices (15%) and reducing the number of employees through redundancies or slower recruitment (15%).
>
> Fewer than one in ten employers say they will reduce the basic pay growth rate for the rest of the workforce (9%), reduce hours (9%), hire more workers under 25 (8%), hire more apprentices (8%) or cancel/scale down plans for investing in or expanding the business (7%).

A survey by the CBI and Accenture gives a different picture (albeit using a smaller sample size). 40% of firms surveyed expected an impact on their business in April 2016. Of those expecting to be affected, 34% said they would pass on the costs to consumers through higher prices while 28% suggested it would mean they employ fewer people than otherwise.[30] The Federation of Small Businesses (FSB) also found that small businesses were most likely to respond by putting off hiring new staff or raising prices, based on a survey sample of FSB members.[31]

3.5 Impact of other policy measures

To help offset some of the increase in wage costs resulting from the NLW, alongside a reduction in corporation tax the Government announced it will increase the National Insurance contributions Employment Allowance from £2,000 to £3,000, from April 2016. The 2015 Summer Budget document explains:

> This will help all businesses and charities, particularly smaller ones, with additional wage costs. As a result, up to 90,000 employers will see their employer NICs liability reduced to zero. When introduced in 2014, the Employment Allowance offset the NICs costs of employing 4 workers full time on the NMW. The increase in the Employment Allowance will mean

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29 CIPD press release, *Half of all employers expect to be affected by the new National Living Wage*, 18 November 2015. For the full survey report and case studies, see: Conor D'Arcy and Gerwyn Davies, *Weighing up the wage floor: Employer responses to the National Living Wage*, Policy report by CIPD and Resolution Foundation, 24 February 2016

30 CBI, *The Path Ahead: CBI/Accenture Employment Trends Survey 2015*, December 2015, pp21-3

31 Federation of Small Businesses, press release, *Small firms expect to slow hiring and increase prices in response to National Living Wage, say FSB*, 7 October 2015

> firms will be able to continue to employ 4 workers full time on the new NLW next year, without paying any NICs.[32]

The rate of corporation tax will reduce from its current level of 20% to 19% from April 2017 and 18% from April 2020, as announced at the Budget.[33]

However, some commentators have pointed out the NLW is not the only policy change increasing costs for businesses. The Institute of Directors notes that larger firms are also having to adjust to extra costs presented by the new Apprenticeships Levy (details of which were announced in the 2015 Autumn Statement), while small business are facing additional costs from pensions auto-enrolment.[34]

The CIPD and Resolution Foundation's survey of employers found a section of employers were expecting the Employment Allowance and corporation tax increases to offset some of the increase in costs from the NLW:[35]

> Around a third of employers (32%) think that cuts to corporation tax and National Insurance will offset at least some of the extra wage costs, though only around one in ten say the tax cuts will offset most or all of the increased costs. However, reflecting the fact that many employers have yet to fully assess the impact of the range of taxation changes, just over a quarter of employers (27%) were unable to give a response. Additionally, very few, if any, of the employers interviewed have factored these changes into their budgets for the financial year ahead. Indeed, when discussing other policy changes, the most commonly cited were those which add to wage bills, including auto-enrolment into workplace pensions and the apprenticeship levy, although the latter is set to affect only larger firms.

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32 HM Treasury, *Summer Budget 2015*, p34

33 Ibid, p54

34 Institute of Directors, *£1bn Living Wage cost shows government must stick to tax cut promises*, 14 December 2015

35 Conor D'Arcy and Gerwyn Davies, *Weighing up the wage floor: Employer responses to the National Living Wage*, Policy report by CIPD and Resolution Foundation, 24 February 2016, p14

4. Impact on the household income distribution

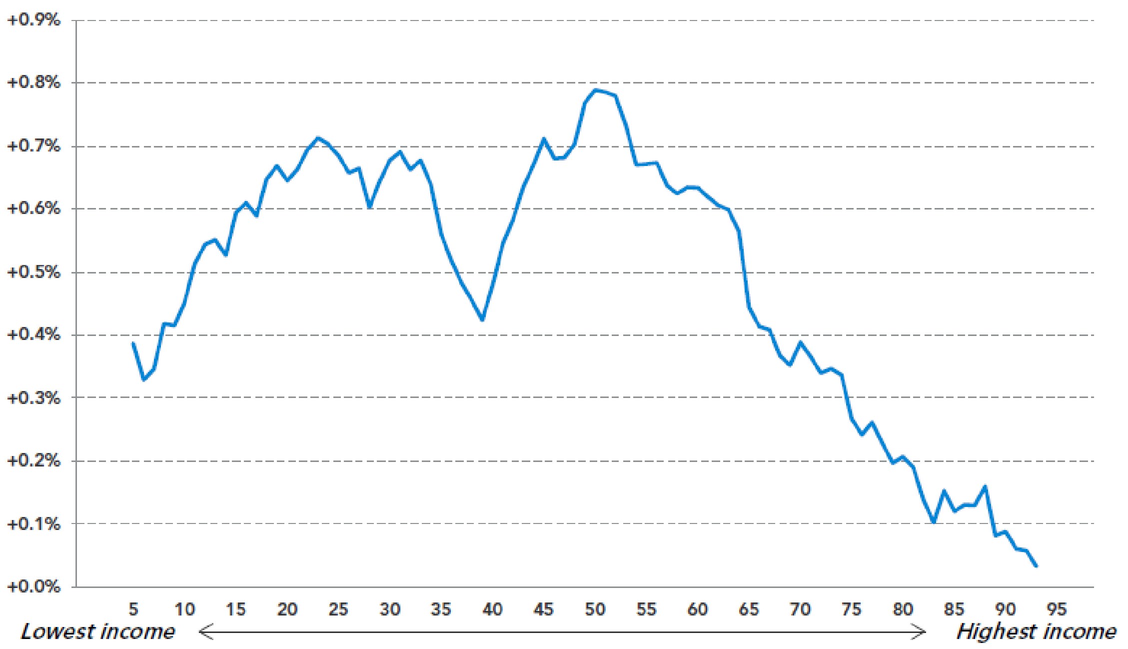
The impact of the NLW is likely to be largest for households in the middle of the income distribution. Average gains to households are lower at the bottom of the income distribution because there are more individuals working fewer hours or not in paid work. At the top of the distribution, average gains per household are lower because there are fewer individuals with low hourly pay.[36]

A chart produced by the Resolution Foundation shows how estimated gains vary across the income distribution by 2020. The Resolution Foundation explains:[37]

> Two things stand out. First, the average income gains are modest, amounting to no more than 0.8 per cent of income in any given percentile. Secondly, the gains are evenly felt across the bottom three quarters of the income distribution, reflecting the fact that low earners do not necessarily live in low income households. Indeed, small gains are recorded all the way up the income distribution.

Figure 33: Income boost associated with the National Living Wage in 2020

Change in net household income due to NLW, by position in equivalised distribution



Source: RF analysis

Following the announcement of the National Living Wage in the 2015 Summer Budget, much of the initial discussion that followed was focussed on the extent to which a higher minimum wage could compensate for changes

36 William Elming, Carl Emmerson, Paul Johnson and David Phillips, *An assessment of the potential compensation provided by the new 'National Living Wage' for the personal tax and benefit measures announced for implementation in the current parliament*, IFS Briefing Note BN175, 9 September 2015, p11

37 Adam Corlett, David Finch and Matthew Whittaker, *Living Standards 2016: The experiences of low to middle income households in downturn and recovery*, 15 February 2016, page 46

to benefits and tax credits. Planned changes to the taper rate and income thresholds were subsequently reversed at the 2015 Autumn Statement, but changes to Universal Credit announced at Summer Budget 2015 will still go ahead as planned from 2016/17. [38] Therefore the measures announced in the Autumn Statement do little to change the long-run impact of the Summer Budget on household incomes once Universal Credit is fully rolled out, replacing tax credits and certain benefits.[39]

Research by the Institute for Fiscal Studies and Resolution Foundation shows that, on average, gains from the National Living Wage do not compensate for cuts to benefits and tax credits. Slides prepared for the Institute for Fiscal Studies' post-Autumn Statement analysis suggest that once all welfare changes introduced between 2015 and 2019 are fully in place, the NLW does little to offset average changes in net income for households at the lower end of the income distribution.[40]

Resolution Foundation analysis comes to a similar conclusion that while the NLW reduces the impact of welfare cuts on household incomes, it "is unable to make a considerable difference": [41]

- Workless households (likely to be among the lowest income households) do not benefit from the NLW as they are not in work.
- The NLW will not apply to under-25s but some may still lose income due to changes to benefits.
- Overall gains from the NLW are smaller than the total cuts to in-work support.
- Many households affected by welfare changes do not gain from the NLW.[42]

The interaction of Universal Credit with the National Living Wage is discussed in detail in the Library's briefing paper, Universal Credit changes from April 2016.

[38] House of Commons Library, Spending Review and Autumn Statement 2015: a summary, Briefing Paper, Number 7401, 30 Nov 2015

[39] See slide 9 of Andrew Hood, *Benefits and tax credit changes*, presentation at IFS Post-Spending Review/Autumn Statement Analysis, 26 November 2015

[40] IFS Post-Spending Review Analysis: James Browne and Andrew Hood, *Benefit and tax credit changes – additional distributional analysis*, 7 December 2015, slide 3.
See also IFS analysis produced before the 2015 Autumn Statement/Spending Review: William Elming, Carl Emmerson, Paul Johnson and David Phillips, *An assessment of the potential compensation provided by the new 'National Living Wage' for the personal tax and benefit measures announced for implementation in the current parliament*, IFS Briefing Note BN175, 9 September 2015

[41] Conor D'Arcy, Adam Corlett and Laura Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation Report, 2 September 2015, p29

[42] This final point is discussed in detail in a report by the Work and Pensions Select Committee, *A reconsideration of tax credit cuts*, HC 548, 9 November 2015, page 9

5. Key reading

- Department for Business, Innovation and Skills (BIS), *Impact Assessment – Amendment to the National Minimum Wage regulations 2015 – introducing the National Living Wage*, 30 Nov 2015
- Low Pay Commission, National Minimum Wage Report Spring 2016
- Office of Budget Responsibility, Economic and Fiscal Outlook, Mar 2016
- Office of Budget Responsibility, Economic and Fiscal Outlook, Nov 2015
- Office of Budget Responsibility, Economic and Fiscal Outlook, July 2015
- Conor D'Arcy, Adam Corlett and Laura Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation Report, 2 Sep 2015
- Conor D'Arcy and Adam Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation report, 15 Sep 2015

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