



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
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**LABOUR AND  
IMMIGRATION  
POLICY**



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# Minimum Wage Review 2018

**November 2018**

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## Executive Summary

This report fulfils a statutory obligation under the *Minimum Wage Act 1983* (the Act) for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year.

Minimum wage increases are consistent with the Government's vision for the economy. Indeed, this year's review occurs within the context of the Coalition Agreement commitment between the New Zealand Labour Party and New Zealand First Party to 'progressively increase the Minimum Wage to \$20 per hour by 2020, with the final increase to take effect in April 2021'. As presented in this report, the minimum wage can help lift the incomes of individuals and families, and contribute to improved living standards. However, this must be balanced with any potential negative impacts on employers and workers.

This year's review takes place in an economic climate marked by positive growth. Gross Domestic Product (GDP) growth in June 2018 was 2.8 per cent and this level of growth is expected to persist in the near term averaging 3 per cent over the next five years. Although increasing uncertainty (trade tensions, low business confidence and low consumer spending) present risk to the economy, the labour market has been tightening. In Stats NZ's Labour Market Statistics September 2018, the unemployment rate fell to 3.9 per cent, the lowest since June 2008 (when it was 3.8 per cent). Employment increased by 2.8 per cent to 2,663,000. This is a positive sign for the labour market as the number of new jobs in the market is larger than the number of people entering the labour market.

In general, minimum wage increases can be expected to have the following impacts:

- Increased earnings for workers paid the minimum wage
- Increased labour costs for employers
- Inflation pressure
- Employment impacts
- Changed fiscal costs for government.

The size of these impacts depends on the size of the minimum wage increase, the economic and labour market context in which it occurs, and how employers respond to changes. Minimum wage increases are most likely to impact on certain demographic groups such as young people, Māori, Pacific peoples, and low-skilled workers.

This year's review adopted an enhanced process which included a greater level of consultation with employer and worker representatives, as well as BusinessNZ and the New Zealand Council of Trade Unions (NZCTU). Stakeholders reported that minimum wage increases could benefit workers by enabling them to better meet living costs, but could also impact businesses and result in lower jobs growth, reduced hours and increased automation.

Although there were different views on how the Government could best reach its commitment to set the rate at \$20 by 2021, the majority of stakeholders are comfortable with an approach that spreads the increases evenly (rather than a small increase this year followed by progressively larger increases the following two years, or a large increase this year followed by progressively smaller increases the following two years).

Stakeholders reported more interest in having the pathway to reach the \$20 rate by 2021 signalled clearly by the Government, than which pathway was followed. A generally-shared view was that greater certainty on prospective rates over the next few years would greatly benefit employers and employees in planning for the future.

The minimum wage rate options developed for this review are as follows:

- Option 1: \$16.50 (status quo)
- Option 2: \$17.00
- Option 3: \$17.50
- Option 4: \$17.70
- Option 5: \$18.00
- Option 6: \$18.50
- Option 7: \$20.55 (proposed by Living Wage Aotearoa as a 'living wage').

Specific impacts of the minimum wage options are summarised in Table 1.

The Ministry of Business, Innovation and Employment (MBIE) recommends Option 4, increasing the adult minimum wage to \$17.70, and increasing the starting-out and training wages to 80 per cent of the adult minimum wage to \$14.16 (the Act requires that they must be no less than 80 per cent of the adult minimum wage). MBIE recommends this because:

- \$17.70 represents an even approach to increasing the minimum wage to \$20 by 2021 and provides the best foundation to meet the Government's commitment. Front- and back-loaded approaches, which include larger increases in some years, are associated with greater risks and levels of uncertainty.
- Up to 209,200 workers (those currently earning up to \$17.70) will receive an increase up to the new minimum wage. New entrants to employment can expect to start at a higher wage rate and many of those earning above the new minimum wage can also expect an increase over time as relative wage rates between different roles are addressed. This represents an increase in hourly wages and overall income for many workers.
- No increase or a small increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation.
- \$17.70 restrains employment less than higher increases to \$18, \$18.50 or \$20.55 (options 5-7). MBIE estimates that a minimum wage of \$17.70 would mean that 8,000 (our low estimate is 5,000 and our high estimate is 9,000) fewer individuals would be in employment than there would have been if the minimum wage had not increased. This compares to forecast employment growth of 56,900 in 2019.
- The unemployment rate has fallen significantly and the labour market has been tightening. The unemployment rate is the lowest it has been since June 2008. This tightening labour market has occurred since the 1 April 2018 increase to the minimum wage of 75 cents, and while the increase to \$20 by 2021 has been widely publicised.

**Table 1: Summary of impacts of the minimum wage options**

<b>Minimum wage rate impact measures</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>	<b>Option 5</b>	<b>Option 6</b>	<b>Option 7</b>
Adult minimum wage (hourly rate)	\$16.50	\$17.00	\$17.50	\$17.70	\$18.00	\$18.50	\$20.55
Adult minimum wage (gross weekly income) <sup>1</sup>	\$660	\$680	\$700	\$708	\$720	\$740	\$822
Percentage increase	N/C	3.03%	6.06%	7.27%	9.09%	12.12%	24.55%
Relativity to median wage <sup>2</sup>	66%	68%	70%	70.8%	72%	74%	82.2%
Relativity to Job Seeker support <sup>3</sup>	274.3%	282.6%	290.9%	294.2%	299.3%	307.6%	341.6%
Number of people directly impacted (rounded up to nearest 100)	71,500	106,500	177,500	209,200	225,600	294,300	525,300
Estimated restraint on employment <sup>4</sup>	N/C	-500	-6,000	-8,000	-11,500	-17,000	-39,000
Estimated economy-wide increase in wages (\$m, annual)	N/C	57	171	231	330	551	1,956
Estimated inflationary impact/GDP (percentage points)	N/C	N/C	N/C	0.1%	0.1%	0.1%	0.5%
Additional annual costs to the government (\$m) <sup>5</sup>	N/C	\$30.6	\$74.9	\$93.1	\$160	\$357	\$1,174

<sup>1</sup> This is calculated on a 40 hour week basis.

<sup>2</sup> The median hourly earnings are \$25.00 per hour (Labour Market Statistics (Income), June 2018).

<sup>3</sup> For a single adult, aged 25 or over, receiving \$240.60 (gross) per week.

<sup>4</sup> The employment effects for '16-64 year olds' are represented.

<sup>5</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, Oranga Tamariki and Accident Compensation Corporation. It does not include potential transfer savings.

# Chapter one – Approach to the 2018 review

## Obligation under legislation and international conventions

1. The *Minimum Wage Act 1983* (the Act) sets minimum hourly wage rates which provide a floor for wages paid to employees. Minimum wage rates are set through an Order in Council made under section 4 of the Act. The Act requires the responsible Minister to review the minimum wage rates by 31 December each year. The responsible Minister is the Minister for Workplace Relations and Safety.
2. The International Labour Organisation (ILO) also recommends that the minimum wage rates be reviewed regularly to preserve its purchasing power, and provide certainty and predictability for employers.<sup>6</sup> New Zealand is a signatory to the ILO's Minimum Wage-Fixing Machinery Convention (1928), which includes a requirement to ensure an adequate minimum wage rate.<sup>7</sup>
3. The responsible Minister makes a decision on the minimum wage rates based on MBIE's advice and notifies Cabinet of any changes. Where there is a change, this is given effect by Order in Council. A change to the minimum wage rates traditionally comes into effect on 1 April and we recommend this date in 2019.

## Enhanced process for the 2018 Review

4. This year's review occurs within the context of the Coalition Agreement commitment between the New Zealand Labour Party & New Zealand First Party to 'progressively increase the Minimum Wage to \$20 per hour by 2020, with the final increase to take effect in April 2021'. Given this commitment, an enhanced process has been adopted that is more extensive than past reviews, including:
  - Wider engagement with employer and worker representatives
  - More comprehensive input from government agencies
  - Information relating to additional factors considered in relation to minimum wage options.
5. The process provides insight into the potential impacts of minimum wage increases in light of the commitment to increase the rate to \$20 by 2021 and of larger-than-recent minimum wage increases. A focus of this year's review has been on the benefits and risks associated with different approaches to increase the minimum wage this year and the following two years.

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<sup>6</sup> International Labour Organisation. (2016). *Minimum wage policy guide*.

<sup>7</sup> Article 4, Convention Concerning the Creation of Minimum Wage-Fixing Machinery, CO26 (1928) (opened for signature 16 June 1928, entered into force 14 June 1930).

6. Consultation has been undertaken with BusinessNZ and the New Zealand Council of Trade Unions as in previous years. This year we also undertook targeted consultation with some employer and worker representatives from a variety of sectors and groups such as agriculture, retail, hospitality, exporters, youth, community centres, non-profits and budgeting services. Their views and submissions have been analysed and reflected in the report.

## **Additional factors**

7. As with previous streamlined reviews, MBIE will focus its analysis on the following factors when assessing options for the minimum wage rates:
  - inflation
  - wage growth
  - restraint on employment growth
  - fiscal impacts.
8. This year's review also provides information on the following factors:
  - living costs and financial needs of workers and their families
  - the actual incomes of workers, and households after tax and social transfers
  - relativity of the minimum wage to welfare benefits and the average and median wages
  - distributional impacts of any minimum wage change
  - the impact of any minimum wage change on poverty
  - the Government's goals for the economy
  - the impacts on different types of employers, including small, medium and large businesses, export and import-reliant businesses, and other employers such as charities.

## **Updated model**

9. Since 2012, MBIE has used a model it developed in conjunction with the New Zealand Institute of Economic Research. The model estimates the impact of a minimum wage increase on wage costs, inflation and employment compared with the counterfactual of no change to the minimum wage. Employment impacts are estimated using coefficients derived from econometric analysis of historical New Zealand data. Historical analysis indicated that different groups (for example youth, females, and Pacific peoples) had different coefficients and these were incorporated in the model.
10. Following recent analysis, the model has been updated to better predict the impact of minimum wage changes, particularly the impact on employment. More specifically, the elasticities used in the model to estimate the impact of minimum wage changes on employment have been updated. The new model uses improved calculations and more recent employment data, as well as addressing some technical issues with the earlier model. It has three iterations:

- **Groups most affected:** The model only produces predicted employment impacts for the groups most affected by minimum wage changes (16-17 year olds, 18-19 year olds, females, Māori, Pacific peoples)
  - **16-64 year olds:** All workers aged between 16 and 64 years old are included
  - **Minimum wage bite:** All workers aged between 16 and 64 years old are included, and the model captures the fraction of workers directly affected by the proposed minimum wage increase.
11. The lowest and highest results of these three iterations are used to provide a range for the estimated impacts of each minimum wage option. In order to provide an actual figure within this range, the 16-64 year olds figure is used, as MBIE judges it to be the best estimate of the impacts.
  12. When compared to the 2012 model, the updated model produces different estimated employment effects, at both an aggregate and subgroup level.
  13. The results produced by the new model have informed MBIE's recommendations. However, in order to enable comparison with earlier minimum wage reviews, the results using the 2012 model are presented in **Annex One**.

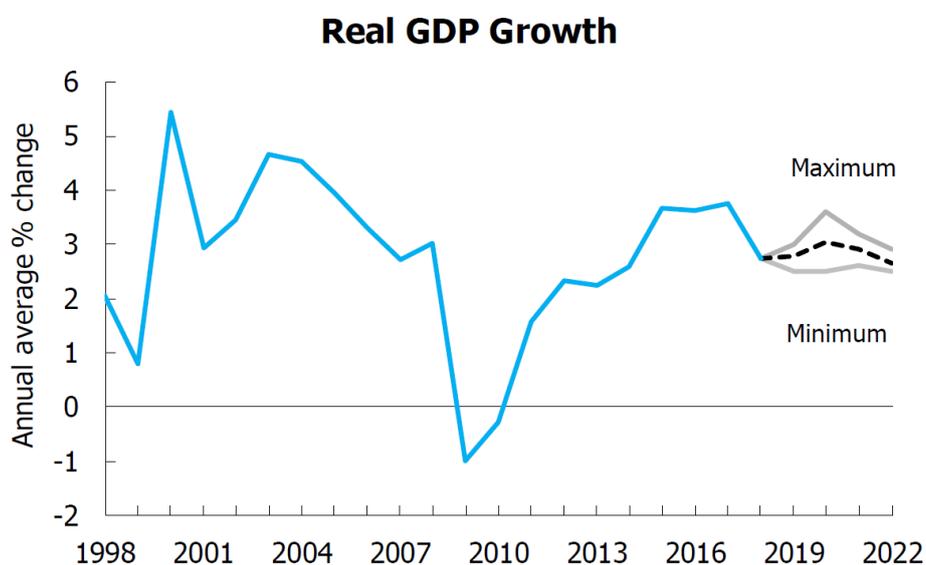
## Chapter two – The economic context for the 2018 review

14. This year’s review takes place in an economic climate marked by positive growth albeit less than expected. Economic growth was slightly lower in June 2018 than was forecasted in Budget 2018. Increasing uncertainty (trade tensions, low business confidence and low consumer spending) present risks to the economy.
15. However, despite slower growth, the labour market has been tightening. In Stats NZ’s *Labour Market Statistics September 2018*, the unemployment rate fell to 3.9 per cent, the lowest since June 2008 (when it was 3.8 per cent). Employment increased by 2.8 per cent to 2,663,000. This is a positive sign for the labour market as the number of new jobs in the market is larger than the number of people entering the labour market.

### Economic situation and outlook

16. Economic growth remains positive, but has slowed over the past two years. Gross Domestic Product (GDP) growth in June 2018 was 2.8 per cent, down from 4.5 per cent in June 2016. The Reserve Bank of New Zealand (Reserve Bank) and the New Zealand Institute of Economic Research (NZIER) expects the recent moderation in growth to persist in the near term,<sup>8</sup> averaging 3 per cent over the next five years.<sup>9</sup> Figure 1 shows the history and forecast in real GDP growth from 1998 to 2022.

Figure 1: History and forecast of real GDP growth by NZIER



17. NZIER notes that continued slow population growth, softening household spending, and lower consumer confidence are underpinning much of the moderation in economic growth.<sup>10</sup>

<sup>8</sup> Reserve Bank of New Zealand. (2018). *Monetary Policy Statement August 2018*.

<sup>9</sup> New Zealand Institute of Economic Research. (2018). *Quarterly Predictions September 2018*.

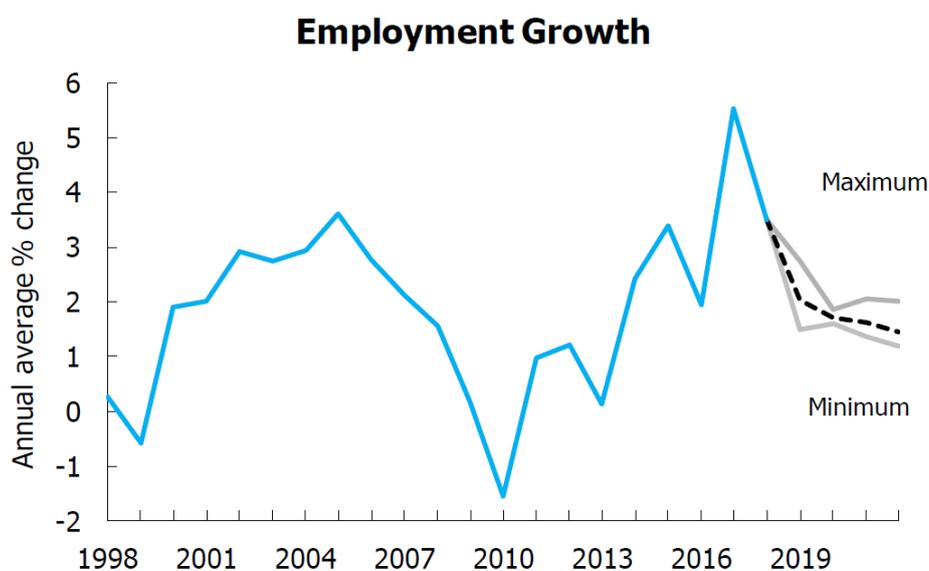
<sup>10</sup> *Ibid.*

18. Annual inflation was 1.5 per cent for the year to June 2018.<sup>11</sup> The Reserve Bank targets inflation between 1 and 3 per cent. There are signs of inflationary pressure rising on the back of higher petrol prices and continued strong construction cost inflation.<sup>12</sup> Despite this, the Reserve Bank has indicated that there is no urgency to raise interest rests and that it is unlikely to lift the Official Cash Rate until late 2020.

## Labour market and employment outlook

19. The labour market has tightened. Data from Stats NZ's Labour Market Statistic September quarter 2018 indicated that over the past year:
- The unemployment rate decreased from 4.7 per cent to 3.9 per cent for the year to September 2018. This is the lowest since June 2008, when it was 3.8 per cent
  - The employment rate increased from 67.67 to 68.3 per cent for the year to September 2018
  - Labour force participation remained steady at 71.1 per cent for the year to September 2018.
20. This tightening of the labour market has occurred since the 1 April 2018 increase to the minimum wage of 75 cents, and while the increase to \$20 by 2021 has been widely publicised.
21. MBIE forecasts employment to grow by 2.1 per cent (or 52,500) in 2018, by 2.3 per cent (or 56,900) in 2019 and by 1.7 per cent (or 43,600) in 2020; totalling to 153,000 more people employed over the next three years. Figure 2 shows the history and NZIER's forecast in employment growth from 1998 to 2022.

Figure 2: History and forecast of employment growth by NZIER

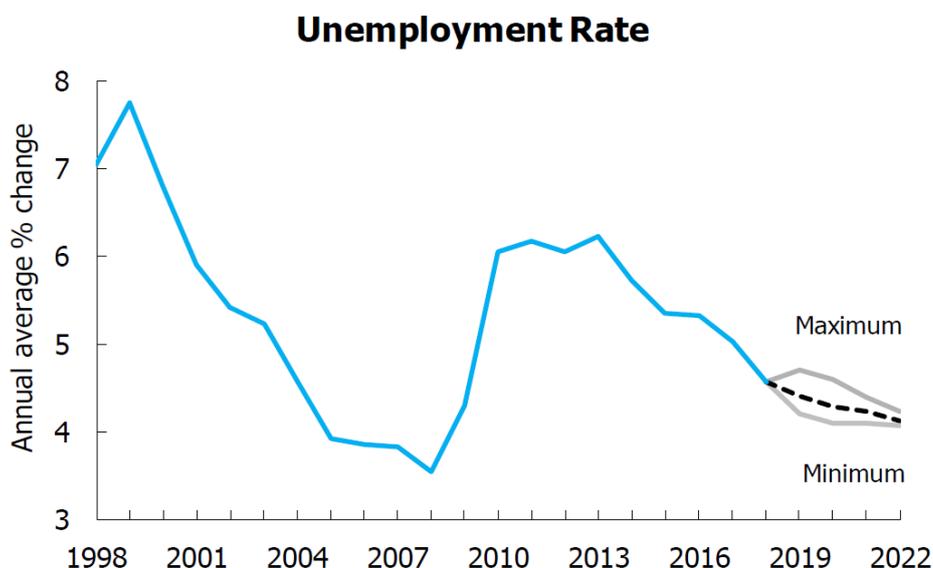


<sup>11</sup> Reserve Bank of New Zealand. (2018). *Monetary Policy Statement August 2018*.

<sup>12</sup> New Zealand Institute of Economic Research. (2018). *Quarterly Predictions September 2018*.

22. The unemployment rate has fallen significantly since the height of the global financial crisis in 2010. The NZIER forecasts that the unemployment rate will be 4.1 per cent by 2022.<sup>13</sup> Figure 3 shows the history and forecast in the unemployment rate from 1998 to 2022.

Figure 3: History and forecasts of unemployment rate by NZIER (August 2018)



### Youth employment

23. The rate of people aged 15-24 years not in employment, education or training (NEET) fell to 10.1 per cent in September 2018 (from 10.9 in June 2018).<sup>14</sup> The biggest driver of this drop in the NEET rate was 6,000 people fewer unemployed and not in education in the 15-19 age group.
24. From the start of the data series in 2004, female NEET rates have been consistently higher than male NEET rates.<sup>15</sup> From 2016 onwards this gender gap narrowed, and has now largely disappeared. In June 2018, there were 37,000 young women who were NEET, compared with 36,000 NEET men.

### Employment for ethnic groups

25. From June 2018 to September 2018, unemployment rates have fallen for New Zealand's four main ethnic groups:
- European – declined to 3.0 per cent
  - Māori – declined to 8.5 per cent
  - Pacific peoples – declined to 6.2 per cent
  - Asian – declined to 3.9 per cent.

<sup>13</sup> New Zealand Institute of Economic Research. (2018). *Consensus Forecasts September 2018*.

<sup>14</sup> Stats NZ. (2018). *Labour Market Statistics September 2018*.

<sup>15</sup> Ibid.

## Chapter three – Current and historical minimum wage

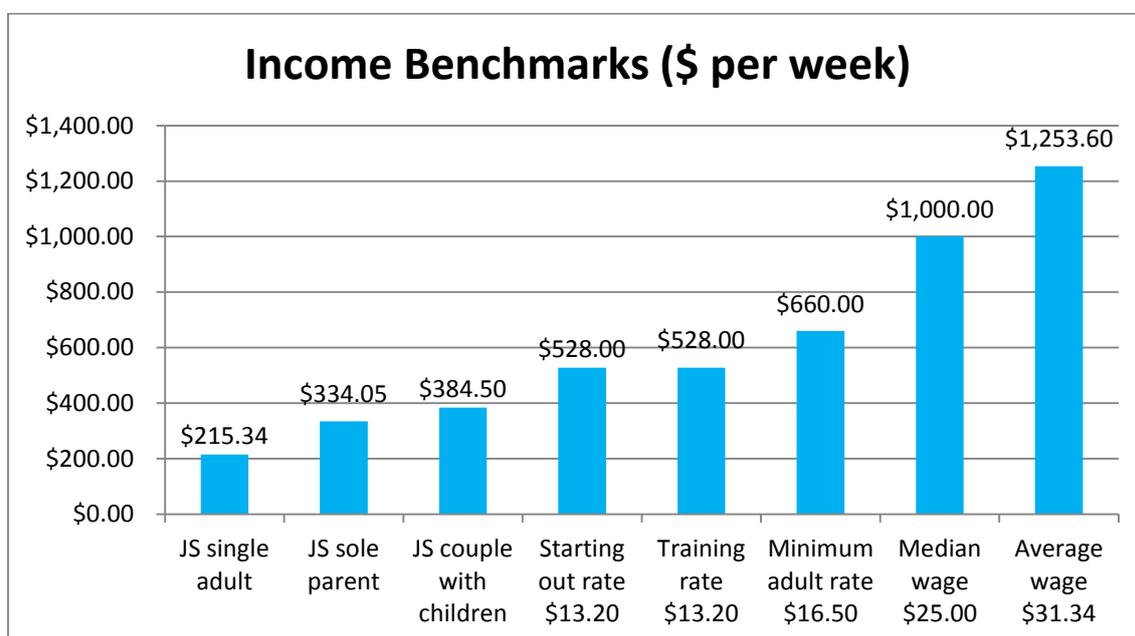
### The current and prescribed minimum wage rates and their coverage

26. The current minimum wage rates prescribed in the Minimum Wage Order 2018 are set out below:
  - the adult minimum wage rate is \$16.50 per hour
  - the starting-out minimum wage rate is \$13.20 per hour
  - the training minimum wage rate is \$13.20 per hour.
27. The adult minimum wage rate applies to all employees aged 16 years and over, unless they are eligible for the starting-out wage or training wage.
28. The starting-out wage was introduced in May 2013. Its purpose is to support more young people entering the workforce and gaining the education and training they need for work. The Act provides that the starting-out wage rate must be set at no less than 80 per cent of the adult minimum wage rate. It is currently set at 80 per cent of the adult minimum wage. The rate applies to an eligible starting-out worker who is either:
  - aged 16 or 17 years who has not completed 6 months continuous employment with his or her current employer, and is not involved in supervising or training other workers;
  - aged 18 or 19 years who has been continuously paid one or more specified social security benefits for not less than 6 months, and has not completed 6 months continuous employment with any employer, and is not involved in supervising or training other workers; or
  - aged 16, 17, 18, or 19 years who is required by his or her contract of service to undertake at least 40 credits a year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates, and is not involved in supervising or training other workers.
29. The training minimum wage rate applies to a trainee who is:
  - aged 20 years or over;
  - required by his or her contract of service undertake at least 60 credits each year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates; and
  - is not involved in supervising or training other workers.
30. Minimum wages are paid to approximately 71,500 workers aged 16 to 64, making up approximately 3.5 per cent of all workers. Workers paid the minimum wage are disproportionately young people (61 per cent of all minimum wage workers) and those working part-time (62 per cent). Women (60 per cent), Māori (17 per cent) and Pacific (5 per cent) workers, people without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid the minimum wage than other groups of workers. These workers are more likely to work in retail and hospitality industries. For more detailed information on the demographic and job characteristics of workers paid the minimum wage, refer to Chapter Six of this report.

## The current minimum wage and other income benchmarks

31. The current adult minimum wage rate of \$16.50 per hour is approximately 52.6 per cent of the average wage (\$31.34 per hour in the September 2018 Labour Market Statistics) and 66 per cent of the median wage (\$25.00 per hour in the New Zealand Income Survey, June 2018).
32. Compared with other income benchmarks, the minimum wage is significantly higher than the rate for sole parents on Jobseeker Support (\$334.05). Figure 4 compares the minimum wage rates with other income benchmarks, all calculated as weekly income for a 40 hour week before tax.

Figure 4: Weekly income from minimum wages and other income benchmarks



## Changes to the minimum wage over the past 10 years

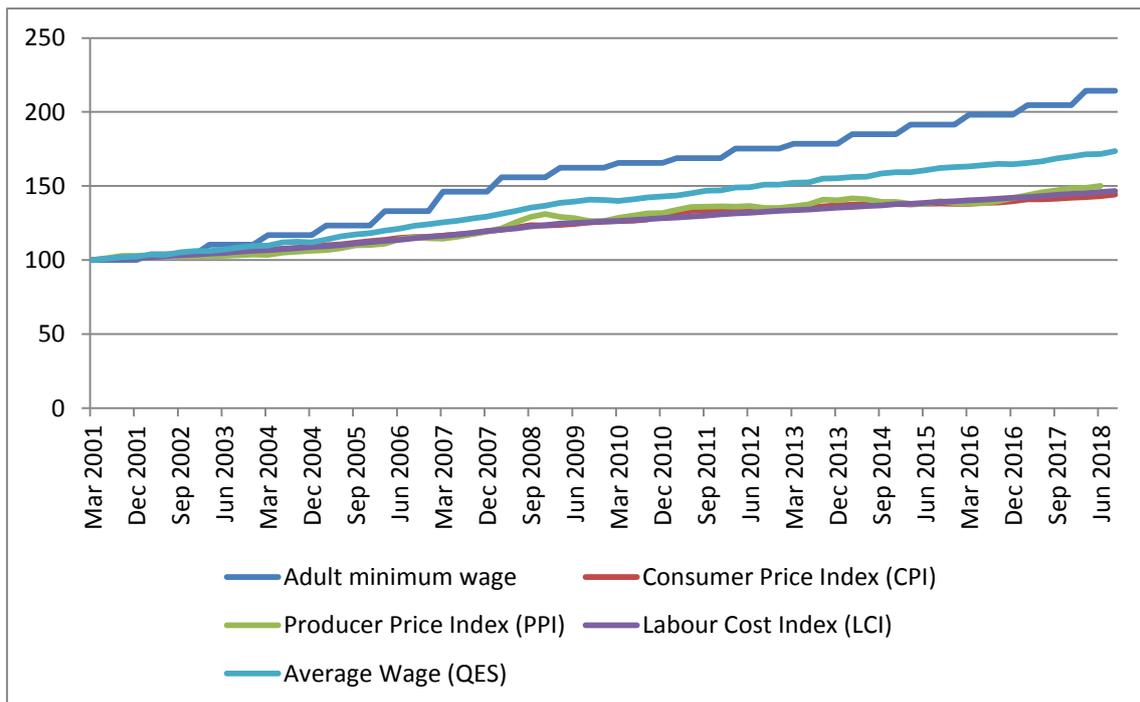
33. Over the last decade, the minimum wage rate has increased every year after the completion of the annual review. Table 2 shows the changes in the hourly minimum wage rates since 2009.

Table 2: Recent changes to the minimum wage rates

Time Period	Adult Minimum Wage	Other Minimum Wage <sup>16</sup>	Per Cent Change (Adult Minimum Wage)
April 2009	\$12.50	\$10.00	4.2%
April 2010	\$12.75	\$10.20	2.0%
April 2011	\$13.00	\$10.40	2.0%
April 2012	\$13.50	\$10.80	3.8%
April 2013	\$13.75	\$11.00	1.9%
April 2014	\$14.25	\$11.40	3.6%
April 2015	\$14.75	\$11.80	3.5%
April 2016	\$15.25	\$12.20	3.4%
April 2017	\$15.75	\$12.60	3.2%
April 2018	\$16.50	\$13.20	4.8%

34. Figure 5 shows increases in the past minimum wage rates compared with various measurements of inflation over the past 18 years. It shows that the minimum wage rate have increased at a faster rate than general wages and inflation.

Figure 5: Increase in the minimum wage rate compared with various measures of inflation, indexed to March 2001



<sup>16</sup> This includes the starting-out wage and training wage.

## Chapter four – The minimum wage in a global context

### Minimum wage across the OECD

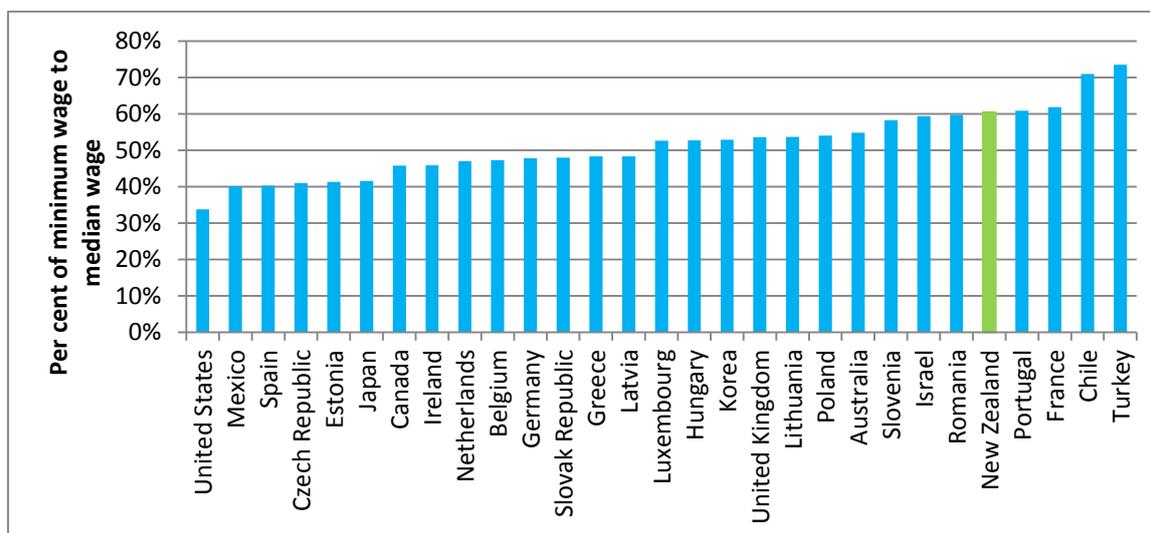
35. New Zealand has a relatively high minimum wage compared to other OECD countries. Only Australia and Luxembourg have higher minimum wages when expressed in \$NZD. Variations in rankings between the annual and hourly datasets in Table 3 below are caused by the different standard working weeks across countries.

Table 3: Ranking of the minimum wage rate across OECD countries, 2018

As Annual Nominal Income <sup>17</sup>			As Hourly Rate <sup>18</sup>		
Rank	Country	\$NZD	Rank	Country	\$(NZD)
1	Australia	\$40,468	1	Australia	\$20.48
2	Luxembourg	\$39,145	2	Luxembourg	\$18.82
3	<b>New Zealand</b>	<b>\$34,320</b>	3	<b>New Zealand</b>	<b>\$16.50</b>
4	United Kingdom	\$31,616	4	France	\$16.10
5	Ireland	\$31,555	5	Ireland	\$15.56
6	Netherlands	\$30,867	6	Belgium	\$15.46
7	Belgium	\$30,549	7	United Kingdom	\$15.20
8	Germany	\$30,326	8	Netherlands	\$14.84
9	France	\$29,302	9	Germany	\$14.40

36. New Zealand has one of the highest ratios of the minimum wage to the median wage amongst OECD countries, as is shown in Figure 6.

Figure 6: Comparison of the minimum wage relative to the median wage across OECD countries, 2017<sup>19</sup>



<sup>17</sup> Annual income is assessed by calculating the hourly rate with the standard working week, multiplied by 52 (weeks). The standard working week is 40 hours for most countries except for France (35), Australia (38), Belgium (38), Ireland (39), Germany (40.5), Israel (42).

<sup>18</sup> The hourly rate is taken from official government sources. The hourly rate is then converted into \$NZD using Inland Revenue's March 2018 *Overseas currency rates 2018 - rolling 12-month average*.

<sup>19</sup> Organisation for Economic Co-operation and Development. (2018). *Minimum relative to average wages of full-time workers*.

## Summary of international literature on the minimum wage

### Division in literature

37. A near universal consensus arose in the 1960s to early 1990s that an increase in the minimum wage will result in lower employment of minimum wage workers. However, in the 1990s an alternative set of studies emerged which had access to a greater set of data or used new methodologies to conclude that minimum wage increases have negligible or even marginally positive employment effects. The debate is far from settled but recent studies favour the alternative evidence.

### On overall labour market

38. In a study of evidence across 19 OECD countries, no overall effect on total employment was found.<sup>20</sup> However, a large majority of the literature argues that while the overall employment effects on the economy may be small or negligible, it is stronger for subsets of the population (as discussed below).
39. A few studies suggest a hidden impact in turnover, indicating that even if there are no employment effects, minimum wages can impact people not leaving their jobs.<sup>21</sup> Workers may be unmatched, resulting in suboptimal levels of productivity which has adverse effects on the economy if employment is not directly reduced.<sup>22</sup>
40. Some studies found that hours of work fall. In a UK study by Papps & Gregg (2014), the lost income from hour reductions exceed the gain associated with minimum wage increases, leaving workers with a net loss.<sup>23</sup>
41. In New Zealand, between 1984 to 2004 the number of workers over 25 earning the minimum wage decreased significantly from 87 to 54 per cent; while the number of teenagers earning below the minimum wage increased dramatically. The percentage of workers working full-time around the minimum wage fell considerably.

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<sup>20</sup> Sturn, Simon. (2018). Do Minimum Wages Lead to Job Losses? Evidence from OECD Countries on Low-skilled and Youth Employment. *ILR Review*, 71(3), 647-675.

<sup>21</sup> Geloso, Vincent. (2016). The Turnover-Reducing Effects of the Minimum Wage May Harm the Economy. *Economic Affairs*, 36(3), 318-325.

<sup>22</sup> Labour market theory indicates that the economy is more productive when a worker's skills are appropriately 'matched' to their ideal job.

<sup>23</sup> Papps, Kerry L; & Gregg, Paul. (2014). *Beyond the wage: Changes in employment and compensation patterns in response to the national minimum wage*. University of Bath.

### **On large minimum wage increases**

42. In Alberta, Canada, the minimum wage rose by \$1.20 every year for four years from 2014. As of 2017, 25,000 workers had lost their jobs.<sup>24</sup> In Estonia, the minimum wage increased 10% each year in 2013-16. There were no or only indiscernible effects on employment in the period.<sup>25</sup> In Hungary, the minimum wage increased by 60 per cent in 2001. 10 per cent of workers lost their job while the rest experienced a 50 per cent income increase. New jobs continued to appear equal to the number of lost jobs.
43. A number of other states and countries are currently proposing or already have underway, large minimum wage increases including South Korea and Ontario, Canada.

### **On youth**

44. The majority of minimum wage studies focus on youth because evidence shows they are most impacted by the minimum wage.<sup>26</sup> The literature almost unanimously agrees that for teenagers, a higher minimum wage is associated with: higher earnings,<sup>27</sup> reduced hires;<sup>28</sup> reduced hours;<sup>29</sup> and reduced turnover. For those in their 20s, the impact is less consistent and less pronounced.<sup>30</sup>

### **On women**

45. The impact of minimum wages on women has not been robustly studied. However, when the UK introduced a national minimum wage, employment retention for part-time women reduced by 3 per cent.<sup>31</sup>

### **On ethnic minorities**

46. The impact on ethnic minorities has not been generally studied to date. Belman (2015) only found one robust study which reported that the minimum wage stimulated employment among single African American and Hispanic mothers in USA, but reduced employment among childless African American and Hispanic people.<sup>32</sup>

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<sup>24</sup> Marchand, Joseph. (2017). *Thinking about Minimum Wage Increases in Alberta: Theoretically, Empirically, and Regionally*. C.D. Howe Institute.

<sup>25</sup> Ferraro, Simona; Hanilane, Birgit; & Staehr, Karsten. (2018). Minimum wages and employment retention: A Microeconomic study for Estonia. *Baltic Journal of Economics*, 18(1), 51-67.

<sup>26</sup> Pacheco, Gail. (2007). The Changing Role of Minimum Wage in New Zealand. *New Zealand Journal of Employment Relations*, 32(3), 2-17.

<sup>27</sup> Liu, Shanshan; Hyclak, Thomas J.; & Regmi, Krishna. (2016). Impact of the Minimum Wage on Youth Labour Markets. *LABOUR: Review of Labour Economics & Industrial Relations*, 30(1), 18-37.

<sup>28</sup> Ibid.

<sup>29</sup> Pacheco at [24].

<sup>30</sup> Liu et al. at [25].

<sup>31</sup> Dickens, Richard; Riley, Rebecca; & Wilkinson, David. (2015). A Re-examination of the Impact of the UK National Minimum Wage on Employment. *Economica*, 82, 841-864.

<sup>32</sup> Belman, Dale; Wolfson, Paul; & Nawakitphaitoon, Kritkorn. (2015). Who Is Affected by the Minimum Wage?. *Industrial Relations*, 54(4), 582-615.

## Chapter five – Impacts on New Zealand

47. The following chapters explain how minimum wages can help lift the incomes of individuals and families and contribute to improved living standards. However, depending on the level of the increase, it can also have negative impacts on some employers and employees.

*Seven options have been developed to model the impacts of minimum wage increases*

48. A range of options were developed to analyse and model the impacts of increasing the minimum wage. The options selected for consideration in this report are:
- Option 1: \$16.50 (status quo)
  - Option 2: \$17.00
  - Option 3: \$17.50
  - Option 4: \$17.70 (approximately a third of the way to \$20)
  - Option 5: \$18.00
  - Option 6: \$18.50
  - Option 7: \$20.55 (proposed by Living Wage Aotearoa as a ‘living wage’).<sup>33</sup>
49. These options were developed for assessment and modelling purposes. There is no requirement or expectation that the adult minimum wage rate for 2019 should be set at any of these rates.
50. This section outlines the anticipated impacts of the seven minimum wage options on wages and inflation, employment and poverty. It also considers the main pathways to increasing the minimum wage to \$20 by 2021.

### Impact on wages and inflation

51. When the minimum wage increases, labour costs for businesses also increase either directly as they employ minimum wage workers, or indirectly because of flow-on effects to the wages of workers paid close to the minimum wage. Businesses may respond by increasing the price of goods produced or services provided using minimum wage labour. Whether this leads to general inflation depends on the broader drivers of inflation, which typically are an increase in the price of goods and services or an increase in demand. Businesses will likely respond differently to any increase in the minimum wage.
52. Table 4 shows the number of workers that would be captured in the wage band of each option, the estimated impacts on the economy-wide wage expenditure and the inflationary impacts. As would be expected, the number of workers impacted and the economy-wide wages increase as the minimum wage increases. Options 1 to 3 (\$16.50 to \$17.50) are estimated to have zero impact on inflation, options 4 to 6 (\$17.70 to

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<sup>33</sup> This figure is proposed by the Living Wage Aotearoa New Zealand movement. The wage rate based on a market wage that would provide the income necessary to meet a set of specified needs for a family of two adults and two children where one adult works 40 hours per week and the other 20 hours per week.

\$18.50) are estimated to lead to a low increase in inflation and option 7 (\$20.55) is estimated to lead to a moderate increase in inflation.

**Table 4: Economy-wide impacts of minimum wage options**

Option	Current number of workers earning between current and new option of minimum wage	Economy-wide increase in wages (\$m, annual)	Expected increase in inflation (%)
\$16.50	71,500	0	0.0
\$17.00	106,500	\$57	0.0
\$17.50	177,500	\$171	0.0
\$17.70	209,200	\$231	0.1
\$18.00	225,600	\$330	0.1
\$18.50	294,300	\$551	0.1
\$20.55	525,300	\$1,956	0.5

## Impacts on employment

53. Minimum wage increases may have negative employment effects, including lower job growth and reduced hours of work. The extent of these effects will depend on the size of the minimum wage rate increase and the economic and labour market context in which the rate increase occurs.
54. MBIE's modelling, both this year and in previous reviews, indicates it is only when changes to the minimum wage rate are significant compared to increases in the average wage that a significant constraint on employment growth would likely occur. This is consistent with domestic and international literature.
55. MBIE's model uses economic and employment data to predict the employment impacts of different increases to the minimum wage. The model provides estimates for three groups:
  - **Groups most affected:** The model only produces predicted employment impacts for the groups most affected by minimum wage changes (16-17 year olds, 18-19 year olds, females, Māori, Pacific peoples)
  - **16-64 year olds:** All workers aged between 16 and 64 years old are included
  - **Minimum wage bite:** All workers aged between 16 and 64 years old are included, and the model captures the fraction of workers directly affected by the proposed minimum wage increase.
56. The lowest and highest results of these three iterations are used to provide a range for the estimated impacts of each minimum wage option. In order to provide an actual figure within this range, the 16-64 year olds figure is used, as MBIE judges it to be the best estimate of the impacts.

57. As shown in Table 5, the modelling suggests negligible employment impacts for increases up to \$17.00 and small impacts for increases to \$17.50 and \$17.70. It predicts that very large increases in a single year would significantly restrain employment growth. Even where the overall employment impacts of a minimum wage change are predicted to be negligible there may still be impacts on particular groups of workers. These impacts are discussed in Chapter Six.

Table 5: Summary of employment impacts

Option	Potential constraint on employment growth		
	'Groups most effected'	'16-64 year olds'	'Minimum wage bite'
\$16.50	0	<b>0</b>	0
\$17.00	-500	<b>-500</b>	-500
\$17.50	-4,000	<b>-6,000</b>	-6,500
\$17.70	-5,000	<b>-8,000</b>	-9,000
\$18.00	-7,500	<b>-11,500</b>	-12,500
\$18.50	-11,000	<b>-17,000</b>	-19,000
\$20.55	-25,000	<b>-39,000</b>	-43,500

58. These predicted employment impacts are expected to occur in a period of employment growth. Overall employment is forecast to grow by 52,500 (or 2.1 per cent) in 2018, by 56,900 (or 2.3 per cent) in 2019 and 43,600 (or by 1.7 per cent) in 2020 — 153,000 more people employed over the next three years.<sup>34</sup> The longer-term employment forecast is for employment to grow by 1.8 per cent annually, adding about 47,000 workers on average per year to the workforce in the 10 years to 2026.<sup>35</sup>

## Impacts on poverty

59. Reducing poverty, particularly child poverty, is a key government objective. Using the primary measures specified in the Government's Child Poverty Reduction Bill (expected to pass into law by the end of 2018), current estimates are that between 13% and 20% of New Zealand children live in poverty or material hardship. It is further estimated that around 40% of poor children live in households where there is at least one adult in full time employment or self-employed.<sup>36</sup>

<sup>34</sup> <https://www.mbie.govt.nz/info-services/employment-skills/labour-market-reports/forecasting/short-term-employment-forecasts/short-term-employment-forecasts-2017-2020/document-image-library/short-term-employment-forecast-2017-2020.pdf>

<sup>35</sup> <https://www.mbie.govt.nz/info-services/employment-skills/labour-market-reports/forecasting/medium-long-term-employment-forecasts/document-image-library/medium-longterm-employment-outlook-2026.pdf>

<sup>36</sup> <https://dpmc.govt.nz/sites/default/files/2018-03/doc-06-cbc-paper-legislating-to-drive-action-to-reduce-child-poverty.pdf>

60. There is broad agreement in the international literature that minimum wages are an important protection for workers and help reduce wage erosion effects. The evidence also indicates that under certain conditions (eg growing demand for labour, and no or small disemployment effects) minimum wage increases can be effective in reducing poverty.<sup>37</sup> Studies and modelling of the disemployment effects of minimum wage rises suggest that these are generally small at an aggregate level, but can be more significant for vulnerable workers.<sup>38</sup> Overall, the key messages from the international evidence are that, on their own, minimum wage increases are a ‘blunt instrument’ for reducing poverty, and that the effects of minimum wages on poverty are highly context specific, with important interaction effects with economic conditions, employment settings, and the tax and transfer system.
61. In New Zealand, 2017 data indicates that about a quarter of people earning at or below the minimum wage are in a parenting role and living in a household with dependent children (35,800 people, or 4 per cent of all main wage and salary earners). A range of other factors will influence whether the overall incomes of these households are in poverty, including whether there are other earners, hours worked, household size, and entitlement and take-up of government income support (eg through tax credits and supplementary assistance). Non-income factors will further influence the extent to which households with children experience material hardship.
62. In order to understand the impact of raising the minimum wage on the income measures in New Zealand, the Child Poverty Unit and Ministry of Social Development analysed the incomes of scenario households on the minimum wage, taking into account their entitlements.<sup>39</sup> They then compared those incomes to standard poverty lines, to assess whether minimum wage increases will lift households over those lines. This analysis suggests:<sup>40</sup>
- Single-person households (without children) receiving their entitlements and working 40 hours a week generally have incomes above the before-housing-cost (BHC50, BHC60) and after-housing-cost poverty lines (AHC40, 50 and 60), depending on actual accommodation costs. Single person households working part-time are likely to have incomes below after-housing-cost poverty lines.

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<sup>37</sup> Matsaganis, Medgyesi and Karakitsios (2015). EU Research Note on interaction between minimum wages, income support, and poverty.

<sup>38</sup> Dolton et al (2012). The International Experience of Minimum Wages in an Economic Downturn; and two meta-analyses cited on pg 8 of Matsaganis et al cited above.

<sup>39</sup> These are hypothetical households of different sizes, with different numbers of hours worked, and in different locations (for the purposes of estimating accommodation costs and subsidies). Lower quartile rents and full take-up of entitlements are assumed, noting that available evidence suggest take-up issues for some tax credits and types of assistance, including the Accommodation Supplement and Minimum Family Tax Credit.

<sup>40</sup> While the analysis looked at a wide range of scenarios, people with no (or low) housing costs are generally more likely to be above AHC poverty lines and below BHC poverty lines than households with similar incomes but higher housing costs.

- A sole parent with children working either 20 or 40 hours working on the minimum wage and receiving their in-work entitlements should be above both the before-housing-cost and after-housing-cost poverty lines. This is largely because of the design of the Minimum Family Tax Credit (MFTC), which guarantees low income families with a dependent child or children an after tax minimum income, by ‘topping up’ a household’s earned income to a set level.
  - The design of the MFTC also means that smaller increases to the minimum wage will have little impact on the incomes of low income working sole parent families who receive the MFTC, as it has 100% effective marginal tax rate, and any increases in incomes will be cancelled out by an equivalent withdrawal of Government assistance.
  - A couple with children working 40 hours or more is also generally likely to be above before-housing-costs poverty lines. Where the incomes of a couple with children sits in comparison to the after-housing-cost poverty lines is less clear cut as it is more sensitive to the number of hours worked of both parents and the level of accommodation costs.
63. This analysis, along with the proportions of those on minimum wages who are parents living with dependent children, suggests that minimum wage increases (on their own) will have a relatively limited impact on measured income poverty for those with children. However, it is possible that increases could make some contribution to Government’s child poverty targets, particularly when accounting for families that are not receiving their in-work entitlements. The findings suggest that minimum wage increases are more likely to have an impact on poverty rates for households without children. This is because they are more likely to be on the lowest wages and receive less government-provided income support to supplement their income (such as through the MFTC, which results in the withdrawal of Government assistance).
64. It is more difficult to assess the impact of the minimum wage on material hardship, particularly as levels of material hardship are influenced by a much broader range of factors, other than income. It is always the case, however, that for those households with low incomes any ongoing increase in income can have a positive impact on actual day-to-day living conditions.

## **Increasing the minimum wage to \$20 by 2021**

65. As noted earlier, the Government has committed to increase the minimum wage to \$20 by 2021. There are three broad ways in which this could be achieved:
- approximately even increases over the next three years
  - a larger increase in 2019, with smaller increases in the following years (front-loaded)
  - a smaller increase in 2019, with larger increases in the following years (back-loaded).

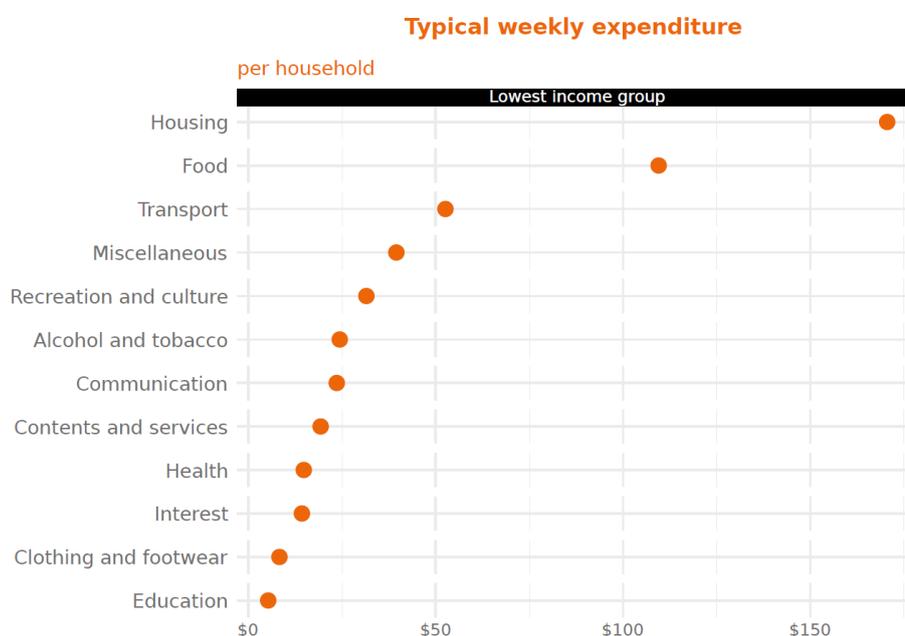
66. While evidence indicates that small increases to the minimum wage have few employment impacts, MBIE's modelling indicates that as the increase in any year gets larger, the constraint on employment growth increases at a disproportionately higher rate. There is also little international evidence that can be used to determine how increases of the magnitude needed to get to \$20 by 2021 should be staggered over a relatively short time period.
67. MBIE's minimum wage model has not been designed to predict the employment impacts over multiple years. It assesses a single year's minimum wage increase (consistent with legislative requirements that the minimum wage is reviewed each year). However, front- and back-loaded approaches, which include larger increases in some years, are associated with greater risks and levels of uncertainty.
68. As a part of the 2018 minimum wage review, MBIE sought submissions from BusinessNZ and the New Zealand Council of Trade Unions, and held a series of consultation meetings with other employer and employee representatives. There were different views on how Government could best reach its commitment to set the rate at \$20 by 2021 (most employer representatives indicated a preference for a back-loaded approach, and employee representatives for a front-loaded approach). However the majority of stakeholders expected an approach that spread the increases evenly and are comfortable that if the Government is to meet its commitment, then an even spread over the years is an acceptable way to meet it.
69. Stakeholders reported more interest in having the pathway to reach the \$20 rate by 2021 signalled clearly by the Government, than which pathway was followed. Many employers stated that businesses (eg tour operators, hoteliers) often need to set prices well in advance and knowledge of future minimum wage increases, particularly when they are larger than usual, is crucial to ensuring these prices are set appropriately. It also allows businesses to build up reserves, ensure they can manage increased labour costs and better plan when making any adjustments to address gender wage disparities. For employees, the increased certainty in minimum wage increases is anticipated to also provide greater certainty for low wage earners in terms of future income. Both groups felt it would be useful in allowing collective bargaining to proceed in an informed manner, rather than parties trying to predict what the minimum wage could be in the future years covered by an agreement.

## Chapter six – Impacts on workers

### Cost of living

70. Over the last ten years, average annual housing costs have increased by 43 per cent to \$17,122.<sup>41</sup> Individuals living in rented dwellings are three times more likely to spend 40 per cent or more of their income on housing costs compared with those in owner-occupied dwellings. One-third of respondents to Stats NZ’s Household Economic Survey 2017/18 said their current household income was either not enough or only just enough to meet their everyday needs.<sup>42</sup> Figure 7 below shows the typical weekly expenditure of a household in the lowest income group.

Figure 7: Typical weekly expenditure of two person household in lowest income group, 2017<sup>43</sup>



71. Stats NZ’s 2017 Household Living-costs Price Index indicates that inflation for housing, utilities and food disproportionately affect beneficiaries and low income earners. Over half of this group’s spending was on these essentials, compared with about a quarter for the highest earners.<sup>44</sup> Table 6 shows how much a couple with two children or a solo parent with two children, living in Auckland, spends per week on the bare essentials. It shows that the minimum wage does not cover weekly expenditure.

<sup>41</sup> Stats NZ. (2018). *Household income and housing-cost statistics: Year ended June 2018*. <https://www.stats.govt.nz/information-releases/household-income-and-housing-cost-statistics-year-ended-june-2018>

<sup>42</sup> Ibid.

<sup>43</sup> Stats NZ. (2018). *Living Costs Explorer*. <https://statisticsnz.shinyapps.io/livingcostsexplorer/>

<sup>44</sup> Stats NZ. (2017). *Rising prices for essentials hit beneficiaries the hardest*.

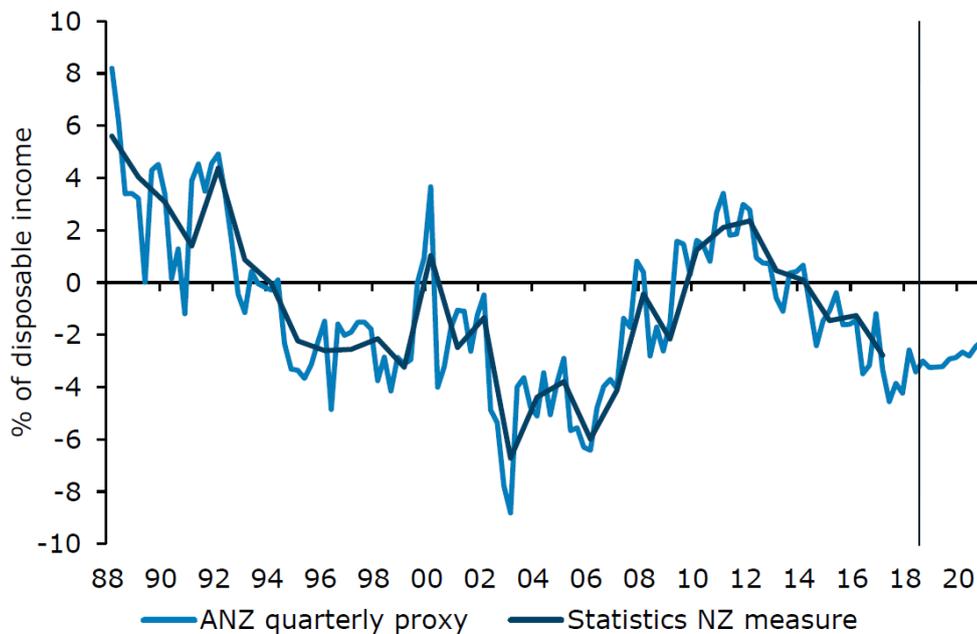
<https://www.stats.govt.nz/news/rising-prices-for-essentials-hit-beneficiaries-the-hardest>

Table 6: Weekly household expenditure in Auckland on bare essentials<sup>45 46</sup>

Category	Couple with two children	Solo parent with children
Food and groceries	\$357.70	\$165.60
Rent	\$414.50	\$407.30
Electricity/gas	\$57.00	\$37.40
Internet/mobile	\$36.50	\$25.40
Health	\$44.60	\$29.40
Transport (private and public)	\$144.20	\$55.70
<b>Weekly expenditure</b>	<b>\$1,054.50</b>	<b>\$720.80</b>
<i>As a percentage of current minimum wage</i>	<i>106% (\$990 from a 40 hour and 20 hour work week for a couple)</i>	<i>109% (\$660 from a 40 hour work week for a solo parent)</i>

72. Consumption has outpaced income growth in recent years and savings rates have fallen, implying that households lack buffers to absorb unexpected events (Figure 8).

Figure 8: Household saving rate by ANZ<sup>47</sup>



<sup>45</sup> Inland Revenue. (2017). *Household Expenditure Guide*.

<sup>46</sup> NOTE: expenditure is based on 2016 data, and using the 2018 minimum wage rate.

<sup>47</sup> ANZ. (2018). *Quarterly Economic Outlook October 2018*.

## Impacts on minimum wage workers

### The number and demographics of people affected

73. Of the 2,044,000 people employed in New Zealand<sup>48</sup>, 3 per cent (71,500) are earning the minimum wage in 2018. The following tables estimate the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options.

74. Table 7 shows that a large proportion of workers in the 18 to 19 and 20 to 24 age groups will be affected by even a modest increase in the minimum wage, while an increase to \$17.50 or above will affect an increased proportion of adult workers.

**Table 7: Estimated affected adult workers (aged 18 to 64 years)**

Option	18-64		18-19		20-24		25-64	
	%	Number	%	Number	%	Number	%	Number
\$16.50	3	60,700	19.8	12,000	8.4	21,100	1.6	27,600
\$17.00	4.6	92,400	27.9	16,900	11.9	29,900	2.7	45,500
\$17.50	8	160,800	38.4	23,300	20.5	51,600	5.1	85,900
\$17.70	9.5	190,700	46.4	28,200	23.2	58,300	6.2	104,300
\$18.00	10.3	206,400	48.7	29,500	24.8	62,300	6.8	114,600
\$18.50	13.7	273,700	57.3	34,800	31.7	79,800	9.4	159,100
\$20.55	25.1	502,400	72	43,700	50.5	127,200	19.6	331,500

Note: the per cent column refers to the percentage of workers earning at the relevant wage level among the whole population of wage earners.

75. Table 8 shows that generally, larger numbers of 16 to 17 year olds will be affected by increases in the adult minimum wage than the starting out wage, because few young people are paid the starting-out wage.

**Table 8: Estimated affected young workers (aged 16 to 17 years)**

Option	Workers aged 16-17 paid at starting-out wage		Option	Workers aged 16-17 paid adult minimum wage	
	%	Number		%	Number
\$13.20	0	0	\$16.50	26.8	10,800
\$13.60	0	0	\$17.00	34.9	14,100
\$14.00	0	0	\$17.50	41.4	16,700
\$14.16	0.4	100	\$17.70	45.8	18,500
\$14.40	1.1	400	\$18.00	47.5	19,200
\$14.80	2.4	1,000	\$18.50	50.9	20,600
\$16.44	18.9	7,600	\$20.55	56.7	22,900

<sup>48</sup> This number only includes wage and salary earners aged 16-64, and excludes workers aged 65 years and older, self-employed, and non-paid employees.

76. Workers who are female, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are more likely to be paid at the minimum wage rate. These workers are therefore generally more likely to benefit from any increase to the minimum wage rate. However, they may also be the first to experience any negative impacts that could result from a change to the minimum wage (for example, reduced hours offered or substitution of some groups of workers for others). A significant rise in the level of the minimum wage may have the effect of employment losses and subsequently increased hardship for lower skilled workers.
77. Table 9 shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics. The table shows, for example, that 36 per cent of minimum wage earners aged 16 to 24 years are studying compared with 12 per cent of all wage earners.

**Table 9: Demographics of minimum wage earners**

Demographic	% of minimum wage earners			% of total wage earners
	16-24	25-64	16-64	16-64
Aged 16-24 years	100%	0%	61%	17%
Female	56%	67%	60%	50%
European/Pakeha	59%	42%	52%	62%
Māori	17%	17%	17%	14%
Pacific	4%	6%	5%	6%
Part-time	72%	46%	62%	18%
Studying	36%	9%	26%	12%
<b>Total</b>	<b>43,900</b>	<b>27,600</b>	<b>71,500</b>	<b>2,044,000</b>

### Young people

78. Minimum wage increases have a greater impact on young people. Those who remain in work will likely see an increase in their wages. However, others might lose their jobs or not gain employment due to the disemployment effects that minimum wage increases can have. Young people who do not successfully transition into employment from education, particularly those with low skills and prolonged periods of inactivity, are at risk of low employability over the long-term. Therefore, there is a risk that increasing the minimum wage significantly could reduce young peoples' well-being over the long-term.
79. Young people tend to earn less than older employees due to their lack of work experience and being in the beginning stages of their career. Table 9 shows that 61 per cent of those earning the minimum wage are between 16 and 24 years old, while the same age group only account for approximately 17 per cent of all workers. However, many young people do not remain in minimum wage jobs long-term as they move on to higher paying jobs as they gain skills and work experience.

80. The former Department of Labour examined the impact of the 2008 youth minimum wage reform, which extended the adult minimum wage rate to the majority of young people aged from 16 years.<sup>49</sup> The study found that the starting-out wage was largely not used by businesses and that firms generally pay the majority of 16 and 17 year old workers the adult minimum wage. This is still the case today as can be seen in Table 8.
81. The policy change in 2008 coincided with an increase in the adult minimum wage rate of 75 cents and therefore resulted in an overall 8.5 per cent minimum wage increase for 16 and 17 year olds. However, that minimum wage increase reduced the proportion of 16 and 17 year olds in employment by between 3 and 6 per cent (4,500-9,000 jobs). However, the jobs that were lost by 16 and 17 year olds were generally taken up by people aged 18 to 19 years.

### **Women**

82. Women are more likely than men to be impacted by any changes to the minimum wage rate as they tend to be over represented in low paid employment (for example, part-time and service sector jobs). Table 9 shows that 60 per cent of all minimum wage workers are women, and 67 per cent of minimum wage workers between 25 and 64 years are women. By comparison, just half of the total workforce is female.

### **Māori and Pacific peoples**

83. Māori and are overrepresented among those in low paid jobs and are more likely to be impacted by a minimum wage increase. Māori account for approximately 14 per cent of the total wage earners, and 17 per cent of total minimum wage earners.
84. Māori may be more likely to be adversely affected compared to other ethnic groups by a higher minimum wage. Research in 2011 found that Māori who were earning the minimum wage experienced significant falls in their employment and total weekly hours when the minimum wage is increased significantly.<sup>50</sup>
85. Pacific peoples are currently underrepresented among those in low paid jobs, accounting for around 6 per cent of total wage earners and 5 per cent of total minimum wage earners. However, under some options to increase the minimum wage being considered, they may become overrepresented<sup>51</sup>.

### **Part-time workers**

86. Table 9 shows that 72 per cent of workers earning the minimum wage aged 16 to 24 years work part-time, while 46 per cent of the workers earning the minimum wage over 25 years of age work part-time. Therefore, any increase to the minimum wage will directly benefit a large proportion of low paid, part-time workers. They might also experience negative impacts from the response to a minimum wage increase of employers, such as reducing hours and recruiting fewer people.

<sup>49</sup> Hyslop, & Stillman. (2011). *Impact of the 2008 Youth Minimum Wage Reform*.

<sup>50</sup> Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

<sup>51</sup> For example, MBIE's modelling estimates that for an increase to \$17.70, 8% of minimum wage earners aged 16-64 would be Pacific peoples.

87. A survey by the former Department of Labour in 2012 found that some employers change their hiring practices in reaction to the changes to the minimum wage in line with the impacts above.<sup>52</sup> MBIE's consultation with workers also found that hiring practices change in line with the impacts above.

### **Students**

88. Table 9 shows that 36 per cent of minimum wage workers aged 16 to 24 are in education compared to 12 per cent of the total wage workers. The high proportion of young people in part-time minimum wage jobs while studying suggests that they are likely to move into higher paying, full-time jobs in the future.
89. Higher minimum wages could encourage young people to leave education and join the workforce. But on the other hand, higher wages are likely to be a barrier for young people gaining employment (compared to older workers) and could therefore encourage them to remain in education. The impact depends on the level of the minimum wage, the costs of education, the job opportunities available and young people's perceptions of their employment prospects.
90. A Hyslop and Stillman study (2011) found that the removal of the youth minimum wage in 2008 increased the proportion of 16 and 17 year olds participating in education, but the proportion looking for work did not increase, and the rate of those not in employment or education decreased.<sup>53</sup>

### **Families and interface with other government interventions**

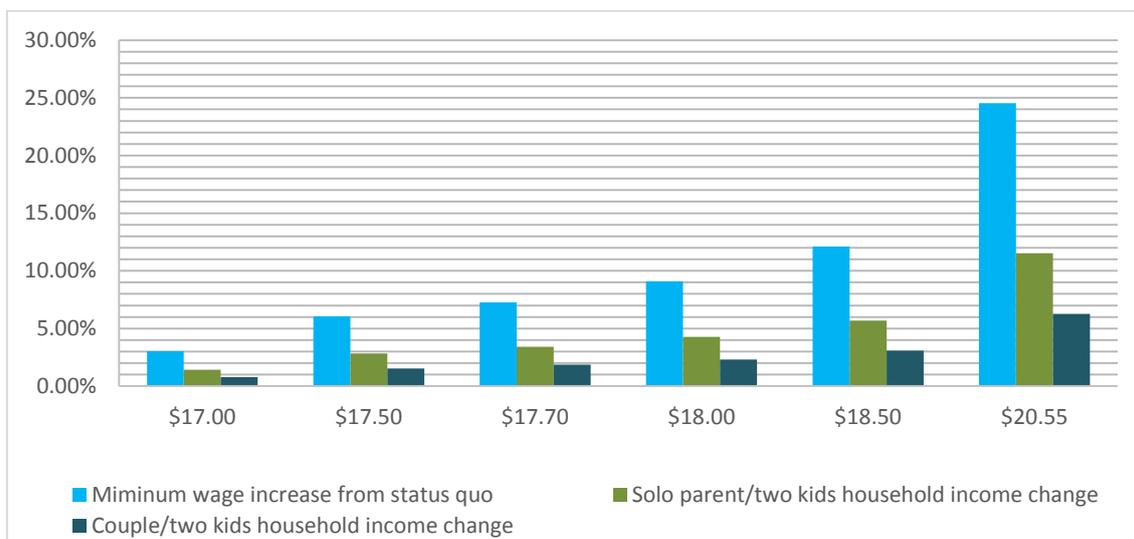
91. Wages are often only part of the income of low income workers. There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the social assistance system, the taxation system, and education and training policies.
92. While increases to the minimum wage rate will generally provide increased incomes for those paid the minimum wage, the net income for a family is affected by taxation and other income support. Within the current policy context, families with dependent children on low to middle incomes will receive tax credits through Working for Families to boost their net family income to help meet the costs of raising a family and receive an accommodation supplement to help meet the costs of housing.
93. Figure 9 compares the percentage increase of the various minimum wage options examined in this report to the expected increase in household income (after government transfers) of two different family compositions. It shows that the increase in the minimum wage is not fully realised in increased household income due to abatements of government transfers.

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<sup>52</sup> Department of Labour. (2012). *Employers' attitudes and practice around the change to the minimum wage*.

<sup>53</sup> Hyslop and Stillman, (2011).

**Figure 9: Comparison of percentage increases in minimum wage to increases in household incomes**



94. Table 10 and Table 11 set out a summary of various scenarios that provide a clear illustration of the combined effect of a wage increase and the abatement of government assistance on household incomes. These scenarios indicate the net gain for a solo parent with two children could be relatively small, and even smaller for a couple with two children. The full set of scenarios can be found in **Annex Three**.

**Table 10: A couple working a combined 60 hours per week at various minimum wage options with two dependent children living in various regions across New Zealand**

Options		Auckland	Ashburton	Whakatane
<b>\$16.50</b>	Combined household net earnings	\$43,715.43	\$43,715.43	\$43,715.43
	Government transfers after abatements	\$23,378.00	\$16,836.40	\$15,838.00
	Total annual household earnings	\$67,093.43	\$60,551.83	\$59,553.43
	<b>Per cent increase in annual earnings</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>\$17.00 (+3.03%)</b>	Combined household net earnings	\$44,980.74	\$44,980.74	\$44,980.74
	Government transfers after abatements	\$22,598.00	\$16,056.40	\$15,058.00
	Total annual household earnings	\$67,578.74	\$61,037.14	\$60,038.74
	<b>Per cent increase in annual earnings</b>	<b>0.72%</b>	<b>0.80%</b>	<b>0.81%</b>
<b>\$17.50 (+6.06%)</b>	Combined household net earnings	\$46,246.06	\$46,246.06	\$46,246.06
	Government transfers after abatements	\$21,818.00	\$15,276.40	\$14,278.00
	Total annual household earnings	\$68,064.06	\$61,522.46	\$60,524.06
	<b>Per cent increase in annual earnings</b>	<b>1.45%</b>	<b>1.60%</b>	<b>1.63%</b>

<b>\$17.70 (+7.27%)</b>	Combined household net earnings	\$46,753.39	\$46,753.39	\$46,753.39
	Government transfers after abatements	\$21,506.00	\$14,964.40	\$13,966.00
	Total annual household earnings	\$68,259.39	\$61,717.79	\$60,719.39
	<b>Per cent increase in annual earnings</b>	<b>1.74%</b>	<b>1.93%</b>	<b>1.96%</b>
<b>\$18.00 (+9.09%)</b>	Combined household net earnings	\$47,511.38	\$47,511.38	\$47,511.38
	Government transfers after abatements	\$21,038.00	\$14,496.40	\$13,498.00
	Total annual household earnings	\$68,549.38	\$62,007.78	\$61,009.38
	<b>Per cent increase in annual earnings</b>	<b>2.17%</b>	<b>2.40%</b>	<b>2.44%</b>
<b>\$18.50 (+12.12%)</b>	Combined household net earnings	\$48,776.69	\$48,776.69	\$48,776.69
	Government transfers after abatements	\$20,258.00	\$13,716.40	\$12,718.00
	Total annual household earnings	\$69,034.69	\$62,493.09	\$61,494.69
	<b>Per cent increase in annual earnings</b>	<b>2.89%</b>	<b>3.21%</b>	<b>3.26%</b>
<b>\$20.55 (+24.55%)</b>	Combined household net earnings	\$53,964.49	\$53,964.49	\$53,964.49
	Government transfers after abatements	\$17,060.00	\$10,518.40	\$9,520.00
	Total annual household earnings	\$71,024.49	\$64,482.89	\$63,484.49
	<b>Per cent increase in annual earnings</b>	<b>5.86%</b>	<b>6.49%</b>	<b>6.60%</b>

**Table 11: A solo parent working 40 hours per week at various minimum wage options with two dependent children living in various regions across New Zealand**

<b>Options</b>		<b>Auckland</b>	<b>Ashburton</b>	<b>Whakatane</b>
<b>\$16.50</b>	Combined household net earnings	\$28,816.95	\$28,816.95	\$28,816.95
	Government transfers after abatements	\$28,927.00	\$22,822.20	\$21,387.00
	Total annual household earnings	\$57,743.95	\$51,639.15	\$50,203.95
	<b>Per cent increase in annual earnings</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

<b>\$17.00 (+3.03%)</b>	Combined household net earnings	\$29,842.50	\$29,842.50	\$29,842.50
	Government transfers after abatements	\$28,667.00	\$22,562.20	\$21,127.00
	Total annual household earnings	\$58,509.50	\$52,404.70	\$50,969.50
	<b>Per cent increase in annual earnings</b>	<b>1.33%</b>	<b>1.48%</b>	<b>1.52%</b>
<b>\$17.50 (+6.06%)</b>	Combined household net earnings	\$30,868.04	\$30,868.04	\$30,868.04
	Government transfers after abatements	\$28,407.00	\$22,302.20	\$20,867.00
	Total annual household earnings	\$59,275.04	\$53,170.24	\$51,735.04
	<b>Per cent increase in annual earnings</b>	<b>2.65%</b>	<b>2.96%</b>	<b>3.05%</b>
<b>\$17.70 (+7.27%)</b>	Combined household net earnings	\$31,278.26	\$31,278.26	\$31,278.26
	Government transfers after abatements	\$28,303.00	\$22,198.20	\$20,763.00
	Total annual household earnings	\$59,281.26	\$53,476.46	\$52,041.26
	<b>Per cent increase in annual earnings</b>	<b>3.18%</b>	<b>3.56%</b>	<b>3.66%</b>
<b>\$18.00 (+9.09%)</b>	Combined household net earnings	\$31,893.58	\$31,893.58	\$31,893.58
	Government transfers after abatements	\$28,147.00	\$22,042.20	\$20,607.00
	Total annual household earnings	\$60,040.58	\$53,935.78	\$52,500.58
	<b>Per cent increase in annual earnings</b>	<b>3.98%</b>	<b>4.45%</b>	<b>4.57%</b>
<b>\$18.50 (+12.12%)</b>	Combined household net earnings	\$32,919.13	\$32,919.13	\$32,919.13
	Government transfers after abatements	\$27,887.00	\$21,782.20	\$20,347.00
	Total annual household earnings	\$60,806.13	\$54,701.33	\$53,266.13
	<b>Per cent increase in annual earnings</b>	<b>5.30%</b>	<b>5.93%</b>	<b>6.10%</b>
<b>\$20.55 (+24.55%)</b>	Combined household net earnings	\$37,123.86	\$37,123.86	\$37,123.86
	Government transfers after abatements	\$26,821.00	\$20,716.20	\$19,281.00
	Total annual household earnings	\$63,944.86	\$57,840.06	\$56,404.86
	<b>Per cent increase in annual earnings</b>	<b>10.74%</b>	<b>12.01%</b>	<b>12.35%</b>

## Feedback from worker representatives

95. MBIE engaged with more worker representatives when compared to previous minimum wage reviews. We sought to gain greater insight into the potential impacts of larger-than-usual minimum wage increases and views on pathways to increase the rate to \$20 by 2021. As part of this consultation, MBIE received five written comments and met with four worker organisations in Auckland, Wellington and Christchurch.<sup>54</sup>
96. A key concern raised by many was the importance of certainty about the pathway to \$20 by 2021. For instance, certainty would better enable unions to negotiate with employers when undertaking collective bargaining. Unions have noted that this would also allow employers to effectively plan their pricing, echoing feedback from employers about certainty of future rates being very important.
97. It was noted that minimum wage increases, particularly large ones, provide a number of benefits. These include:
- providing families and women with more sustainable income
  - alleviating the stresses of living week to week, particularly for youth
  - improving outcomes for children, particularly relating to education and poverty
  - providing a sense of increased agency for being valued and properly recognised for their work
  - reducing the need for ‘ambulance at the bottom of the cliff’ programmes
  - providing people with literacy and numeracy issues with increases wages
  - increasing employer loyalty, leading to better retention and better candidates for job openings.
98. It was also suggested that after large minimum wage increases during the mid-2000s the unemployment rate declined, the labour force participation rate increased and inflation remained within Reserve Bank targets. MBIE also heard that youth participation rates and unemployment were almost unchanged.
99. Some worker representatives acknowledged that margins in retail and hospitality are small and that the economic context is important when considering minimum wage increases. Some stakeholders noted that it is better to get people into higher paid work and increasing skills and training, than having more people in lower paid work.

## Feedback from New Zealand Council of Trade Unions (NZCTU)

100. The NZCTU was invited by the Minister for Workplace Relations and Safety to provide a submission on the 2018 minimum wage review. The NZCTU considers that:
- the minimum wage must be increased significantly as New Zealand workers have low wages compared to other developed countries

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<sup>54</sup> Citizens Advice Bureau; Commission for Financial Capability; E tū; Hui E!; New Zealand Council of Trade Unions; New Zealand Educational Institute; Tertiary Education Commission/CareersNZ; Unite Union; Wellington City Youth Council.

- strong increases in productivity are needed to sustain higher wages
  - there is a need to ensure productivity is passed on to workers in their wages (and that this has not been the case in recent years) through collective bargaining.
101. The NZCTU notes that an increase in the minimum wage addresses the needs of low income workers, narrows the wage gap with Australia, encourages employers to invest in productivity, reduces inequality and poverty, and increases labour participation rates.
102. The NZCTU prefers an immediate rise in the minimum wage to 66 per cent of the average ordinary time wage (\$20.99 from 1 April 2019). Alternatively, the minimum wage could progress to the 66 per cent target by 2021. The NZCTU forecasts the average wage to be \$33.86 in March 2021, and therefore minimum wage increases to \$18.26 on 1 April 2019, \$20.20 on 1 April 2020, and \$22.35 on 2021. Without prejudice to its preferred rise to the minimum wage, the NZCTU also submitted that the Government's target of \$20 by 2021 should be frontloaded to recognise the urgency of improving wages and incomes to households (\$1.25 in the first two years, and \$1.00 in the final year).
103. The NZCTU welcomes the Government's commitment to \$20 by 2021 but considers that rising household costs will erode the value of this commitment by 2021. The NZCTU prefers the final increase to be adjusted to protect the \$20 target's real value.
104. The NZCTU considers that low wages are a barrier to economic development and productivity, as well as being a social issue. It notes that the public subsidises poor remuneration and productivity through wage subsidies such as Working for Families. In addition, the gap between growth in real wages and labour productivity has been widening since 2009. The NZCTU notes that because of weak collective bargaining in New Zealand, the minimum wage is the only means the Government has to address this misallocation of resources.
105. The NZCTU considers that a higher minimum wage increases equity and can improve productivity. The NZCTU strongly supports the Government's target to increase the minimum wage significantly, taking into account the relative strength of New Zealand's economy, low wage growth since the global recession and the history of low wages in New Zealand. The NZCTU also submits that minimum wage increases have very small or no effect on employment or unemployment.
106. The NZCTU also made the following points:
- the calculation of the minimum wage as a fortnightly rate should be removed from the Minimum Wage Order
  - the objective of the minimum wage is flawed and needs to change (it assumes minimum wages are at the correct level and lead to job losses when increased)
  - low minimum wages have trapped workers and employers in a low-skill low-wage equilibrium
  - enforcement of the minimum wage is inadequate and should be funded more.

## MBIE comment on worker submissions

107. MBIE has considered the submissions from the NZCTU and worker representatives as part of its review of the minimum wage.
108. MBIE has assessed the NZCTU's proposals of \$20.99 (preferred step for 1 April 2019), \$18.26 (suggested alternative step for 1 April 2019) and \$17.75 (suggested approach to the \$20 target). The impacts of these proposals are outlined in Table 12.

Table 12: Assessment of NZCTU's proposals for the minimum wage

Option	Workers affected	Inflationary impact (%)	Annual increase in wage (\$m)	Constraint on employment (16-64 year olds)
\$20.99	548,600	0.6%	2,360	-44,000
\$18.26	287,100	0.1%	442	-14,000
\$17.75	212,400	0.1%	247	-8,500

109. While the \$20.99 and \$18.26 options would significantly increase the real incomes of low-paid workers, both are estimated to lead to significant constraint on employment growth and have inflationary impacts of 0.6% and 0.1%, respectively. However, while \$17.75 would also significantly increase the real incomes of low-paid workers, the impacts on employment are much lower.
110. NZCTU have raised concerns with the fortnightly minimum wage rate, the objective of the minimum wage and the enforcement of compliance with minimum wage provisions. These points are not within scope of the current review, but will be considered if the minimum wage policy is reviewed more broadly in the future.
111. As discussed in Chapter Five, a key suggestion from wider worker representatives was to either front-load increases to the minimum wage or introduce even increases to reach the \$20 target by 2021. MBIE has considered this feedback when determining a recommended rate for 2019.

## Chapter Seven – Impacts on employers

112. Changes to the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. When the minimum wage increases, some employers increase the wages of workers paid above the minimum wage to maintain wage relativity to the minimum wage. The flow-on effect is also considered to be a consequence of employers benchmarking their wages to the minimum wage as regular increases to the minimum wage rate can be useful for their initial wage-setting.
113. Referred to as pay parity, this can have a significant impact on businesses. During consultation, stakeholders noted that this flow-on cost is a greater burden than increasing the wages of those on the minimum wage. Currently there are about 209,200 workers aged between 18 and 64, earning between \$16.50 and \$17.70 per hour. Approximately 48 per cent of these workers are between 18 and 25 years old.

### Impact on sectors

114. The impact of a minimum wage increase on each sector depends on the number of employees earning the minimum wage and close to it in those sectors. In New Zealand (and in many countries), employers in the hospitality, manufacturing, and retail sectors are more likely to have staff paid at, or close to the minimum wage than employers in the professional/technical services, and health industries as indicated in Table 13 below.
115. Table 13 provides an overview of the number of minimum wage earners in different sectors. The sector with the greatest number of minimum wage earners is the hospitality industry, with 22,800 workers (almost 19 per cent of hospitality workers). Other sectors with a high number of minimum wage earners are retail (17,900), manufacturing (4,700), and administrative services (4,500).

Table 13: Minimum wage workers by sector

Sector	Workers		Working Hours	Their Earnings
	% of total workers	Number	% of total hours	% of total earnings
Agriculture	2.7	2,100	2.1	1.4
Mining	0.0	0	0.0	0.0
Manufacturing	2.2	4,700	1.8	1.0
Utilities	0.6	100	0.6	0.3
Construction	1.8	2,900	1.4	0.8
Wholesale	2.7	2,500	1.7	0.9
Retail	9.1	17,900	6.0	4.2
Hospitality	18.6	22,800	13.0	10.6
Transport and Storage	1.0	900	1.2	0.6
Information and Telecommunications	0.2	100	0.2	0.1
Finance	0.0	0	0.0	0.0
Real Estate	3.4	1,000	3.5	1.7
Professional Services	0.9	1,500	0.3	0.1
Administrative Services	7.8	4,500	5.4	3.3
Public Administration	1.2	1,600	0.8	0.4
Education	1.0	2,100	0.6	0.3
Health	0.8	1,800	0.4	0.2
Arts and Recreation	6.0	2,000	3.3	1.9
Other Services	3.9	2,500	3.0	1.9
<b>Total</b>	<b>3.5</b>	<b>71,500</b>	<b>2.2</b>	<b>1.2</b>

## Impact on regions

116. Both the number, and proportion, of workers earning the minimum wage, or close to it, is relevant in determining the impact of a minimum wage increase in that region. Table 14 provides an overview of the number of minimum wage earners across New Zealand. The region with the most minimum wage earners is Auckland, as expected due to its size.
117. However, the proportion of minimum wage workers compared to all workers in each region, provides a different story than the actual number of workers. The Manawatu-Wanganui region has a higher proportion of its workers earning the minimum wage than other regions, making up 5.7 per cent of all workers. Other regions with a high number of minimum wage earners are the Bay of Plenty (5.2 per cent), Waikato (4.7 per cent) and Taranaki (4.1 per cent).

118. These proportions would change depending on which minimum wage option is chosen in this year's review. For example, at the minimum wage rate of \$17.70, Wellington would have a higher proportion of its workers earning the minimum wage than other regions, making up 13.9 per cent of all workers in Wellington.
119. This shows the minimum wage 'bite'<sup>55</sup> and how it differs across the regions. The closer the minimum wage is to the average wage, the larger the bite.

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<sup>55</sup> The minimum wage 'bite' is defined as the coverage and effect of the minimum wage rate, and how much the minimum wage is becoming the 'going rate'.

Table 14: Number of minimum wage workers in each region (and as a percentage of all workers in each region)

Options	Northland	Auckland	Waikato	Bay of Plenty	Gisborne/ Hawke's Bay	Taranaki	Manawatu- Wanganui	Wellington	Nelson/Tasman /Marlborough/ West Coast	Canterbury	Otago	Southland
\$16.50 (status quo)	1,200 (2%)	21,900 (3%)	8,800 (4.7%)	6,300 (5.2%)	3,600 (4.1%)	2,000 (4.1%)	5,400 (5.7%)	6,600 (2.8%)	2,300 (3.2%)	7,900 (3%)	4,000 (3.9%)	1,600 (3.9%)
\$17.00	2,400 (3.9%)	33,300 (4.6%)	11,700 (6.3%)	8,900 (7.3%)	5,100 (5.8%)	2,900 (5.9%)	7,900 (8.3%)	9,900 (4.2%)	4,600 (6.2%)	12,500 (4.8%)	4,700 (4.6%)	2,700 (6.7%)
\$17.50	4,500 (7.4%)	58,400 (8%)	17,300 (9.3%)	13,600 (11.2%)	8,500 (9.7%)	4,000 (8.3%)	11,500 (12.1%)	18,500 (7.9%)	8,300 (11.3%)	21,600 (8.2%)	6,700 (6.6%)	4,500 (11.2%)
\$17.70	5,900 (10.2%)	67,400 (9.6%)	20,000 (9.2%)	16,300 (10.8%)	11,100 (13.3%)	4,900 (12.6%)	13,200 (10%)	20,300 (13.9%)	10,300 (8.7%)	25,900 (14%)	8,200 (9.9%)	5,800 (8.1%)
\$18.00	6,400 (10.5%)	73,300 (10%)	21,600 (11.7%)	17,300 (14.1%)	11,300 (12.9%)	5,500 (11.4%)	14,000 (14.7%)	21,900 (9.3%)	11,100 (15.1%)	27,500 (10.4%)	9,500 (9.3%)	6,300 (15.7%)
\$18.50	8,800 (14.3%)	97,400 (13.3%)	29,100 (15.7%)	22,400 (18.3%)	13,400 (15.3%)	7,100 (14.7%)	16,500 (17.4%)	28,000 (11.9%)	14,200 (19.4%)	35,600 (13.5%)	14,000 (13.7%)	7,700 (19.2%)
\$20.55	17,000 (27.7%)	170,500 (23.3%)	49,700 (26.7%)	37,700 (30.9%)	25,600 (29.2%)	13,600 (28.1%)	30,500 (32.1%)	50,700 (21.6%)	25,100 (34.2%)	64,100 (24.4%)	28,200 (27.7%)	12,500 (31.3%)

## Feedback from employer representatives

120. In addition to meeting with more worker representatives, MBIE engaged more employer representatives as part of this year's review. We received four written comments and met with nine employer-related organisations in Auckland, Wellington and Christchurch.<sup>56</sup>
121. The key concern for employer representatives was the lack of certainty in minimum wage rates over the next few years. Stakeholders said that certainty enables businesses to build up reserves to respond to increased costs, plan for the future, and forward price by including future labour costs in prices, which is critical in certain industries such as exporting and tourism.
122. Employer representatives tended to raise concerns with increasing the minimum wage to \$20 by 2021. It was suggested that increases may lead to:
- more automation, especially as minimum wage increases make the business case for automation stronger
  - shifting functions offshore, and outsourcing some functions such as administration
  - reduced hours for workers
  - decreased hiring intentions
  - removing some unskilled roles and upskilling others so they do more
  - youth finding it more difficult to obtain employment as employers look to more experienced workers if they have to pay a higher minimum wage
  - new staff receiving fewer non-monetary benefits (training, healthcare, reduced terms and conditions).
123. Most agreed the impact of the minimum wage on small and medium enterprises was far greater as margins are very small in many businesses. Labour-intensive industries, such as hospitality, are most at risk from negative employment impacts.
124. Employers also emphasised that businesses are increasingly unable to pass on increased costs to consumers through price increases. One of the impacts is that more owner/operators become involved in the business.
125. Employers mentioned that more people are earning at the minimum wage as the minimum wage continues to rise. To achieve the goal of a higher-wage economy, it was recommended that the Government focus on training and productivity improvements, rather than simply relying on minimum wage increases. It was also suggested that government consider providing more support for businesses that might struggle to afford minimum wage cost increases, such as coaching and training for small business owners (such as those provided through Chambers of Commerce), subsidies and tax rebates.

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<sup>56</sup> BusinessNZ; Canterbury Employers Chamber of Commerce; Employers and Manufacturers Association; ExportNZ; Federated Farmers of New Zealand; HospitalityNZ; ManufacturingNZ; Restaurant Association of New Zealand; RetailNZ; Tourism Industry Aotearoa; Wellington Chamber of Commerce.

126. Finally, some employers reported they are feeling burdened by the number of changes that impact on them (eg industrial relations and environmental changes).

## **Feedback from BusinessNZ**

127. BusinessNZ was invited by the Minister for Workplace Relations and Safety to provide a submission on the 2018 minimum wage review.

128. BusinessNZ suggested that a review be undertaken to look into the role and effect of the minimum wage in light of increases in recent years, as well as world events that have affected the economy and wages. The minimum wage should also be set as a percentage of the median wage, with the percentage determined by the review, and limited by inflation as measured by the Consumer Price Index.

129. BusinessNZ noted that as the minimum wage rises, so too does the number of people paid the minimum wage. Pay parity should be improved by increasing training and employment opportunities to increase productivity.

130. BusinessNZ also made the following points:

- most employees on the starting-out wage are not in a vulnerable position and do not rely on the minimum wage as a long-term source of income
- minimum wage increases reduce job opportunities for youth as their productivity is below their comparable wage level
- further increases may dissuade youth from education and training
- the sectors most affected (manufacturing, produce, retail, hospitality and tourism) are also the gateway to long-term employment for young people, as they contain a significant number of entry level jobs.

131. BusinessNZ recommends that consideration also be given to changing the approach to the minimum wage away from an hourly rate, to that of averaging income over hours worked. Business NZ considers that the current approach effectively increases the costs of the job, without changing its value and also increases the cost of “passive work” such as callouts, standby and sleeping.

132. Finally, BusinessNZ recommends that consideration be given to the use of tax cuts, rather than the minimum wage, to increase real wages for low wage workers. BusinessNZ notes that this approach would mitigate the negative effects of the abatement of government transfer payments such as Working for Families as a household’s income rises from minimum wage increases.

## **MBIE comment on employer submissions**

133. MBIE has considered the submissions from BusinessNZ and employer representatives as part of its review of the minimum wage.

134. BusinessNZ and other employers submitted that as the minimum wage rate increases, so too does the number of people that are paid the minimum wage. MBIE uses a range of evidence in the minimum wage model to estimate the number of people that are

paid the minimum wage. There has not been any evidence in recent years that the number of minimum wage earners has significantly increased (Table 15). It appears that that people who are paid within a range close to the minimum wage have their wages increased in line with the minimum wage. However, it is possible that large increases over a short period of time could increase the proportion of minimum wage workers, at least temporarily.

**Table 15: Number of people paid the minimum wage from past review**

<b>Review year</b>	<b>Number of people paid the minimum wage</b>	<b>% of total workers</b>
2012	84,800	3.8%
2013	54,600	2.4%
2014	62,700	2.7%
2015	74,900	3.2%
2016	73,300	2.9%
2017	76,400	3.9%
2018	71,500	3.5%

135. BusinessNZ also noted that minimum wage increases reduce job opportunities for youth. MBIE appreciates that minimum wage increases have a greater impact on young people. Young people who do not successfully transition into employment from education, particularly those with low skills and prolonged periods of inactivity, are at risk of low employability over the long-term. MBIE has added the distributional impact of minimum wage increases on specific groups, such as youth and women, as additional factors to be considered in this year's review.
136. MBIE has noted the concern over the lack of certainty of the actual rates each year to meet \$20 by 2021. It has also noted issues of employers feeling overburdened by multiple changes and will refer these comments to appropriate areas.

## Chapter Eight – Impacts on government

137. Increases to the minimum wage are expected to have direct and indirect fiscal impacts for some government agencies. This section summarises these estimated impacts.
138. The Ministries of Health, Social Development and Education, Oranga Tamariki, Inland Revenue, and Accident Compensation Corporation were identified as the agencies most likely to be impacted by any change to the minimum wage rate. In addition to requesting that these agencies provide fiscal estimates of the potential impacts, MBIE canvassed all other Public Service and Non-Public Service Departments if anticipated minimum wage increases were expected to have a material impact.
139. The Ministry of Health, Accident Compensation Corporation, Ministry of Social Development, Ministry of Education and Oranga Tamariki indicated that minimum wage increases are likely to have an impact<sup>57</sup>. For these agencies, total annual costs directly related to a minimum wage increase are estimated to be:
- Option 1: \$0
  - Option 2: \$30,630,933
  - Option 3: \$74,948,981
  - Option 4: \$93,069,550
  - Option 5: \$160,003,944
  - Option 6: \$357,029,783
  - Option 7: \$1,174,213,179

140. A breakdown of these estimates by agency is provided below<sup>58</sup>

Withheld consistent with the Official Information Act 1982

### Ministry of Health

141. The Ministry of Health has identified three main areas in the health sector where a minimum wage increase is likely to have a substantial fiscal impact:
- **Direct workforce costs for District Health Boards (DHBs).** Some staff members contracted by DHBs are on wages between the current minimum wage and \$20.55 an hour.
  - **Increased funding costs for increased wages for third party employers.** A number of private sector organisations provide services that are funded through either DHB or Ministry of Health provider contracts. Support workers make up the majority of the workforce within these organisations and are often paid at rates only slightly higher than the minimum wage. Any increase to the minimum wage is likely to result in increased costs to these organisations and indirect funding implications through any resulting increase in the contract rates.

<sup>57</sup> Although the New Zealand Defence Force indicated some minor impacts (\$560,000 for an increase to \$17.75), these have not been included in the report as estimates were not in reference to the assessed options, were relatively minor, and would not significantly impact the total figures.

<sup>58</sup> These figures are subject to their own assumptions and caveats based on the individual methodologies used by each agency.

- **Costs relating to in-between travel and sleepover wages.** The Government is required to pay some workers for travel between clients and sleeping overnight at their workplace while on duty. These settlements apply to some providers of health-related services.

142. The Ministry of Health advises that the majority of the minimum wage options would have relatively minor direct fiscal implications for DHBs (with the exception of an increase to \$20.55). However, it advises that there would be significant increased costs for funding of third party employers, and in-between travel and sleepover wages

143. The total cost implications for each option are summarised in Table 16

Withheld consistent with the Official Information Act 1982

**Table 16: Indicative increased costs for the Ministry of Health under each option**

Option	DHB direct wage costs	Funding for third-party employers	In-between travel and sleepover wages	Estimated total increase costs for health sector
\$16.50	-	-	-	-
\$17.00	\$62,400	\$7,812,707	\$3,860,045	<b>\$11,735,152</b>
\$17.50	\$181,869	\$15,898,423	\$7,720,105	<b>\$23,800,397</b>
\$17.70	\$270,927	\$19,131,965	\$9,263,872	<b>\$28,666,764</b>
\$18.00	\$419,129	\$23,983,839	\$11,580,550	<b>\$35,983,518</b>
\$18.50	\$994,885	\$32,445,723	\$15,440,602	<b>\$48,881,210</b>
\$20.55	\$8,836,518	\$75,102,129	\$31,267,456	<b>\$115,206,103</b>

### Accident Compensation Corporation

144. The Accident Compensation Corporation advises that minimum wage increases up to \$20.55 would not have any direct workforce impacts. However, increases up to this point are expected to have an impact on funding for third-party employers, as well as the Accident Compensation Corporation's weekly compensation costs and outstanding claims liability (OCL). The OCL is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims. Increases in the OCL will have an impact on Scheme solvency. Solvency is the measure of ACC's assets to ACC's liabilities by Account. This impact can be recovered through the levy setting process, and appropriations.

145. The estimated costs associated with each option are outlined below.

Withheld consistent with the Official Information Act 1982

**Table 17: Indicative increased costs for the Accident Compensation Corporation under each option**

Option	Funding for third-party employers	Weekly compensation costs	OCL costs	Total
\$16.50	-	-	-	-
\$17.00	\$5,101,420	\$2,850,517	\$7,000,000	<b>\$14,951,937</b>
\$17.50	\$10,202,839	\$5,701,034	\$27,000,000	<b>\$42,903,873</b>
\$17.70	\$12,243,407	\$6,841,240	\$35,000,000	<b>\$54,084,647</b>
\$18.00	\$15,304,259	\$8,551,551	\$86,000,000	<b>\$109,855,810</b>
\$18.50	\$26,782,452	\$11,402,067	\$248,000,000	<b>\$286,184,519</b>
\$20.55	\$65,808,312	\$23,089,187	\$903,000,000	<b>\$991,897,499</b>

### Ministry of Social Development

146. The Ministry of Social Development (MSD) advises that the change to the minimum wage would not have a direct effect on their wage costs as the current minimum hourly rate for all permanent, short term and casual staff is \$20.55 per hour. All marginal costs relate to MSD's Home Help programme, which provides financial assistance to eligible people who require temporary part-time help to complete domestic tasks (normally performed in their homes). MSD increases the home help hourly rate by the same percentage as any increase in the minimum wage. This ensures that the amount paid for home help workers does not fall below the minimum wage.

147. The expected cost increase for MSD from different wage options are outlined in the following table.

**Table 18: Indicative increased costs for MSD under each option**

Option	Home Help Programme (2018/19)
\$16.50	-
\$17.00	\$10,000
\$17.50	\$20,000
\$17.70	\$24,000
\$18.00	\$30,000
\$18.50	\$40,000
\$20.55	\$81,000

### Ministry of Education

148. In the education sector, a large number support staff (ground staff, caretakers, cleaners, support staff and untrained teachers) are low paid. Support staff are paid from individual schools' operating grants, which means that marginal costs resulting from increases to the minimum wage would largely need to be met by Boards of Trustees from school operational funding. Increases to school operational funding is

part of the annual Budget process. The level of increase to minimum wage rates would add a cost pressure for Boards, dependant on the level of future increases to school operational funding.

**Table 19: Indicative increased costs for the Ministry of Education under each option**

Option	Estimated total increased cost for the Ministry of Education
\$16.50	-
\$17.00	\$3,796,564
\$17.50	\$7,700,551
\$17.70	\$9,545,339
\$18.00	\$12,973,976
\$18.50	\$19,877,334
\$20.55	\$58,739,361

### Oranga Tamariki

149. Oranga Tamariki advises that all of its direct employees are paid at least \$20.55 an hour, meaning that minimum wage options are not expected to have a marginal impact on workforce costs. All marginal costs relate to increased funding and procurement costs from increased wages for third party employers delivering social services (eg counselling, social welfare, youth and community services).
150. Table 20 shows the predicted marginal costs to Oranga Tamariki as a result of different minimum wage increases.
151. Withheld consistent with the Official Information Act 1982

**Table 20: Indicative increased costs for Oranga Tamariki under each option**

Option	Estimated total increased cost for Oranga Tamariki
\$16.50	-
\$17.00	\$137,280
\$17.50	\$524,160
\$17.70	\$748,800
\$18.00	\$1,160,640
\$18.50	\$2,046,720
\$20.55	\$8,289,216

## Potential impacts on the tax and transfers system

152. Although increases to the minimum wage are predicted to increase costs for government, it is likely that they would also impact on the tax and transfers system and other social policy programmes. While many of these are not able to be quantified, examples include:

- A minimum wage increase is likely to lead to expenditure savings as a result of lower entitlements being paid out due to abatement of welfare benefits and other social assistance (eg Working for Families Tax Credits) – see Chapter Six.
- The number of people required to make student loan repayments could increase, as well as the rate they are required to repay them.
- The amount of KiwiSaver contributions made could increase, which could increase expenditure if it results in more people receiving their full member tax credit entitlement.
- It is expected that PAYE tax revenue paid by employees would increase, but Inland Revenue advises this is likely to be more than offset by a decrease in tax paid by their employers (as wages are deductible from employer revenue)
- An increase may lead to more people having disposal income, which could result in the collection of more GST due an increase in consumption levels.

## Chapter Nine – Setting the rate

153. This section summarises the assessment of the options to increase the minimum wage rate for the Minimum Wage Review 2018. Key information relating to each option is presented, including predicted impacts generated by MBIE’s minimum wage model on inflation, wages growth and restraint on employment.
154. The review also considers the following additional factors identified by the Minister for Workplace Relations and Safety:
- living costs and financial needs of workers and their families
  - the actual incomes of workers, families, and households after tax and social transfers
  - distributional impacts of any minimum wage change
  - the impact of any minimum wage change on poverty
  - the Government’s goals for the economy, including the commitment to increase the minimum wage to \$20 by 2021
  - the impacts on different employers, including small, medium and large businesses, export and import reliant businesses, and other employers such as charities.
155. These factors provide useful contextual information and additional insights into the impacts of minimum wage increases. Although it has not always been possible to quantify these additional factors in respect to each option, a number of broad conclusions can be drawn:
- The actual incomes of workers, families, and households will increase as the minimum wage increases and this will make it easier for minimum wage earners and their families to meet living costs. However, because tax and social transfers (eg Working for Families, Accommodation Supplement) are designed to assist low paid workers, particularly those with dependent children, the actual increase to households can be reduced, often markedly.
  - Those most likely to benefit from minimum wage increases (eg youth, females, Māori and Pacific peoples working in the hospitality, retail, manufacturing and administrative services sectors) are also the most likely to be impacted by reduced hours or lower jobs growth.
  - The minimum wage is currently set at a level where individuals and families working full-time are generally above income poverty line measures. However, minimum wage increases may reduce poverty rates for households that do not work full-time hours or do not receive social transfers. They may also have some impact on rates of material hardship.
  - The impact of minimum wages increases vary across employers. Exporters, small and medium-sized enterprises, and employers with a large number or proportion of minimum wage earners are most likely to be impacted.

156. This section concludes with MBIE’s recommendation to increase the adult minimum wage to \$17.70 (option 4) and increase the starting-out and training wages so that they remain at 80 per cent of the adult minimum wage (\$14.16).

**Option 1: \$16.50 per hour (current minimum wage rate)**

**Table 21: Employment impacts of option 1**

Minimum wage rate impact measures	Impact of option 1
Adult minimum wage (hourly rate)	\$16.50
Adult minimum wage (gross weekly income) <sup>59</sup>	\$660
Percentage increase	N/C
Relativity to median wage <sup>60</sup>	66%
Relativity to Job Seeker support <sup>61</sup>	274.3%
Number of people directly impacted (rounded up to nearest 100)	71,500
Estimated restraint on employment <sup>62</sup>	N/C
Estimated economy-wide increase in wages (\$m, annual)	N/C
Estimated inflationary impact/GDP	N/C
Additional annual costs to the government (\$m) <sup>63</sup>	N/C

157. This option would reduce the relative value of the current minimum wage paid to about 71,500 workers and is therefore not consistent with government policy. It would also mean that, in order to meet the Government’s commitment to increase the minimum wage to \$20 by 2021, two larger increases in two years would be required. This approach may result in greater negative employment impacts overall when compared to three even increases over the next three years.
158. This option would not constrain employment growth and there would be no impact on national weekly wage earnings or inflation. It would have no marginal fiscal cost to government. Currently an employee receiving the minimum wage receives \$660 gross per 40 hour work week.

<sup>59</sup> This is calculated on a 40 hour week basis.

<sup>60</sup> The median hourly earnings are \$25.00 per hour (Labour Market Statistics (Income), June 2018).

<sup>61</sup> For a single adult, aged 25 or over, receiving \$240.60 (gross) per week.

<sup>62</sup> The employment effects for the ‘16-64 year olds’ are represented.

<sup>63</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, Oranga Tamariki and Accident Compensation Corporation.

## Option 2: \$17.00 per hour

Table 22: Employment impacts of option 2

Minimum wage rate impact measures	Impact of option 2
Adult minimum wage (hourly rate)	\$17.00
Adult minimum wage (gross weekly income)	\$680
Percentage increase	3.03%
Relativity to median wage	68%
Relativity to Job Seeker support	282.6%
Number of people directly impacted (rounded up to nearest 100)	106,500
Estimated restraint on employment	-500
Estimated economy-wide increase in wages (\$m, annual)	57
Estimated inflationary impact/GDP	N/C
Additional annual costs to the government (\$m)	\$30.6

159. This option represents a 3.03 per cent increase to the minimum wage rate. Two examples of the impact on the actual incomes of minimum wage workers are presented below. These examples represent high and low percentage increases in net weekly income, but not necessarily the most prevalent minimum wage earners.
- A full-time employee receiving no tax credits or other income support would receive \$680 gross per 40 hour work week. Their net weekly income would increase by \$17.90 (3 percent), from \$590.70 to \$608.60.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$9.33 (0.72 percent), from \$1,290.46 to \$1,299.79.
160. This option could directly affect up to 106,500 workers and increase annual economy wide wages by \$57 million. It is estimated it would have no impact on inflation and a minor employment impact (500 fewer individuals in employment than there would have been if the minimum wage had not increased). This is compared to forecast employment growth of 56,900 in 2019. It could have an annual fiscal cost of \$30.6 million to government.

### Option 3: \$17.50 per hour

Table 23: Employment impacts of option 3

Minimum wage rate impact measures	Impact of option 3
Adult minimum wage (hourly rate)	\$17.50
Adult minimum wage (gross weekly income)	\$700
Percentage increase	6.06%
Relativity to median wage	70%
Relativity to Job Seeker support	290.9%
Number of people directly impacted (rounded up to nearest 100)	177,500
Estimated restraint on employment	-6,000
Estimated economy-wide increase in wages (\$m, annual)	171
Estimated inflationary impact/GDP	N/C
Additional annual costs to the government (\$m)	\$74.9

161. This option represents a 6.06 per cent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:
- A full-time employee receiving no tax credits or other income support would receive \$700 gross per 40 hour work week. Their net weekly income would increase by \$35.80 (6.06 percent), from \$590.70 to \$626.50.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$18.66 (1.45 percent), from \$1,290.46 to \$1,309.12.
162. This option could directly affect up to 177,500 workers and increase annual economy wide wages by \$171 million. It is estimated that this rate would result in 6,000 fewer individuals in employment than there would have been if the minimum wage had not increased, compared to forecast employment growth of 56,900 in 2019. It could have an annual cost of \$74.9 million to government, and would not affect inflation.

#### Option 4: \$17.70 per hour (recommended option)

Table 24: Employment impacts of option 4

Minimum wage rate impact measures	Impact of option 4
Adult minimum wage (hourly rate)	\$17.70
Adult minimum wage (gross weekly income)	\$708
Percentage increase	7.27%
Relativity to median wage	70.8%
Relativity to Job Seeker support	294.2%
Number of people directly impacted (rounded up to nearest 100)	209,200
Estimated restraint on employment	-8,000
Estimated economy-wide increase in wages (\$m, annual)	231
Estimated inflationary impact/GDP (percentage points)	0.1%
Additional annual costs to the government (\$m)	\$93.1

163. This option represents a 7.27 per cent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:
- A full-time employee receiving no tax credits or other income support would receive \$708 gross per 40 hour work week. Their net weekly income would increase by \$42.96 (7.27 percent), from \$590.70 to \$633.66.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$22.42 (1.74 percent), from \$1,290.46 to \$1,312.88.
164. This option could directly affect up to 209,200 workers and increase annual economy wide wages by \$231 million. It is estimated that this rate would result in 8,000 fewer individuals in employment than there would have been if the minimum wage had not increased. This is compared to forecast employment growth of 56,900 in 2019. It could have an annual fiscal cost of \$93.1 million to government, and is estimated to increase inflation by 0.1 percent.

## Option 5: \$18.00 per hour

Table 25: Employment impacts of option 5

Minimum wage rate impact measures	Impact of option 5
Adult minimum wage (hourly rate)	\$18.00
Adult minimum wage (gross weekly income)	\$720
Percentage increase	9.09%
Relativity to median wage	72%
Relativity to Job Seeker support	299.3%
Number of people directly impacted (rounded up to nearest 100)	225,600
Estimated restraint on employment	-11,500
Estimated economy-wide increase in wages (\$m, annual)	330
Estimated inflationary impact/GDP (percentage points)	0.1%
Additional annual costs to the government (\$m)	\$160

165. This option represents a 9.09 per cent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:
- A full-time employee receiving no tax credits or other income support would receive \$720 gross per 40 hour work week. Their net weekly income would increase by \$53.70 (9.09 percent), from \$590.70 to \$644.40.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$28 (2.17 percent), from \$1,290.46 to \$1,318.46.
166. This option could directly affect up to 225,600 workers and increase annual economy wide wages by \$330 million. It is estimated that this rate would result in 11,500 fewer individuals in employment than there would have been if the minimum wage had not increased. This is compared to forecast employment growth of 56,900 in 2019. It could have an annual fiscal cost of \$160 million to government, and is estimated to increase inflation by 0.1 per cent.

## Option 6: \$18.50 per hour

Table 26: Employment impacts of option 6

Minimum wage rate impact measures	Impact of option 6
Adult minimum wage (hourly rate)	\$18.50
Adult minimum wage (gross weekly income)	\$740
Percentage increase	12.12%
Relativity to median wage	74%
Relativity to Job Seeker support	307.6%
Number of people directly impacted (rounded up to nearest 100)	294,300
Estimated restraint on employment	-17,000
Estimated economy-wide increase in wages (\$m, annual)	551
Estimated inflationary impact/GDP (percentage points)	0.1%
Additional annual costs to the government (\$m)	\$357

167. This option represents a 12.12 per cent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:
- A full-time employee receiving no tax credits or other income support would receive \$740 gross per 40 hour work week. Their net weekly income would increase by \$71.60 (12.1 percent), from \$590.70 to \$662.30.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$37.33 (2.89 percent), from \$1,290.46 to \$1,327.79.
168. This option could directly affect up to 294,300 workers and increase annual economy wide wages by \$551 million. It is estimated that this rate would result in 17,000 fewer individuals in employment than there would have been if the minimum wage had not increased. This is compared to forecast employment growth of 56,900 in 2019. It could have an annual fiscal cost of \$357 million to government, and is estimated to increase inflation by 0.1 per cent.

## Option 7: \$20.55 per hour

Table 27: Employment impacts of option 7

Minimum wage rate impact measures	Impact of option 7
Adult minimum wage (hourly rate)	\$20.55
Adult minimum wage (gross weekly income)	\$822
Percentage increase	24.55%
Relativity to median wage	82.2%
Relativity to Job Seeker support	341.6%
Number of people directly impacted (rounded up to nearest 100)	525,300
Estimated restraint on employment	-39,000
Estimated economy-wide increase in wages (\$m, annual)	1,956
Estimated inflationary impact/GDP (percentage points)	0.5%
Additional annual costs to the government (\$m)	\$1,174

169. This option represents a 24.55 per cent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:
- A full-time employee receiving no tax credits or other income support would receive \$822 gross per 40 hour work week. Their net weekly income would increase by \$144.99 (24.5 per cent), from \$590.70 to \$735.69.
  - An Auckland-based couple, both earning the minimum wage, working a combined 60 hours a week, with two dependent children, and receiving Working for Families and an accommodation supplement, would see their net weekly income increase by \$75.60 (5.86 per cent), from \$1,290.46 to \$1,366.06.
170. This option could directly affect up to 525,300 workers and increase annual economy wide wages by \$1,956 million. It is estimated that this rate would result in 39,000 fewer individuals in employment than there would have been if the minimum wage had not increased. This is compared to forecast employment growth of 56,900 in 2019. It could have an annual fiscal cost of \$1,174 million to government, and is estimated to increase inflation by 0.5 percent.

## Recommendations from MBIE

### Setting the minimum wage rates

171. Setting the adult minimum wage rate requires balancing the benefits of any changes to the rate, such as the protection of the lowest paid employees, against the costs that any change to the rate might bring, such as restraint on employment growth. It also requires that the Government's goals for the economy, particularly the commitment to increase the minimum wage to \$20 by 2021, are taken into account.
172. In light of these considerations, MBIE recommends increasing the adult minimum wage rate to \$17.70 (option 4). This option is preferred because:
- \$17.70 represents an even approach to increasing the minimum wage to \$20 by 2021 and provides the best foundation to meet the Government's

commitment. Front- and back-loaded approaches, which include larger increases in some years, are associated with higher risks and levels of uncertainty.

- Up to 209,200 workers (those currently earning up to \$17.70) will receive an increase up to the new minimum wage. New entrants to employment can expect to start at a higher wage rate and many of those earning above the new minimum wage can also expect an increase over time as relative wage rates between different roles are addressed. This represents an increase in hourly wages and overall income for many workers.
- No increase or a small increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation.
- \$17.70 restrains employment less than higher increases to \$18, \$18.50 or \$20.55 options 5-7). MBIE estimates that a minimum wage of \$17.70 would mean that 8,000 (our low estimate is 5,000 and our high estimate is 9,000) fewer individuals would be in employment than there would have been if the minimum wage had not increased. This compares to forecast employment growth of 56,900 in 2019.
- The unemployment rate has fallen significantly and the labour market has been tightening. The unemployment rate is the lowest it has been since June 2008, when it was 3.8 per cent. This tightening labour market has occurred since the 1 April 2018 increase to the minimum wage of 75 cents, and while the increase to \$20 by 2021 has been widely publicised.

173. An increase to \$17.70 equates to an increase of \$1.20 an hour or 7.27 percent. As inflation is 1.9 per cent for the year to September 2018, the real increase in income of this option is 5.37 percent.

174. MBIE also recommends maintaining the starting-out and training minimum wage rates at 80 per cent of the adult minimum wage (\$14.16). A differential between these rates and the adult minimum wage rates supports the transition of youth into employment.

## Annex One – Results from the previous minimum wage model

The table below presents the results for 2018 generated by the 2012 minimum wage model developed by MBIE and the New Zealand Institute of Economic Research. Although not used for the 2018 minimum wage report, they are presented below to demonstrate the results that would have been produced if the model was not updated and to allow comparison with earlier minimum wage reviews.

Option	Current number of workers earning between current and new option of minimum wage	Economy-wide increase in wages (\$m, annual)	Expected increase in inflation (%)	Restraint on employment
\$16.50	71,500	0	0.0	0
\$17.00	106,500	\$57	0.0	-500
\$17.50	177,500	\$171	0.0	-4,000
\$17.70	209,200	\$231	0.1	-5,500
\$18.00	225,600	\$330	0.1	-8,000
\$18.50	294,300	\$551	0.1	-11,500
\$20.55	525,300	\$1,956	0.5	-27,000

## Annex Two – Scenarios on interface of minimum wage options with other government interventions

The six scenarios in this annex are:

- A couple with two children working a combined 60 hours per week and
  - **Scenario 1:** living in Avondale, Auckland paying median rent of \$560
  - **Scenario 2:** living in Ashburton, Canterbury paying median rent of \$380
  - **Scenario 3:** living in Whakatane, Bay of Plenty paying median rent of \$390.
- A solo parent with two children working 40 hours per week and:
  - **Scenario 4:** living in Avondale, Auckland paying median rent of \$560
  - **Scenario 5:** living in Ashburton, Canterbury paying median rent of \$380
  - **Scenario 6:** living in Whakatane, Bay of Plenty paying median rent of \$390.

### Scenario 1: A couple with two children working a combined 60 hours per week, living in Avondale, Auckland paying median rent of \$560

Scenario 1a: \$16.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
<b>Parent B</b>	20	\$330.00	\$17,160.00	\$2,023.00	\$238.52	\$14,898.48
<b>Combined net earnings without other income support</b>					\$43,715.43	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,195.00	
Total Working for Families assistance after abatement					\$12,198.00	
Maximum accommodation supplement					\$15,860.00	
Abatement on accommodation supplement					\$4,680.00	
Total accommodation supplement after abatement					\$11,180.00	
<b>Effective annual earnings for the household</b>					\$67,093.43	
<b>Percentage increase in minimum wage</b>					0.00%	
<b>Percentage increase in annual earnings</b>					0.00%	

Scenario 1b: \$17.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,208.00	\$491.50	\$29,660.50
<b>Parent B</b>	20	\$340.00	\$17,680.00	\$2,114.00	\$245.75	\$15,320.25
<b>Combined net earnings without other income support</b>					\$44,980.74	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,585.00	
Total Working for Families assistance after abatement					\$11,808.00	
Maximum accommodation supplement					\$15,860.00	
Abatement on accommodation supplement					\$5,070.00	
Total accommodation supplement after abatement					\$10,790.00	
<b>Effective annual earnings for the household</b>					\$67,578.74	
<b>Percentage increase in minimum wage</b>					3.03%	
<b>Percentage increase in annual earnings</b>					0.72%	

Scenario 1c: \$17.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,390.00	\$505.96	\$30,504.04
<b>Parent B</b>	20	\$350.00	\$18,200.00	\$2,205.00	\$252.98	\$15,742.02
<b>Combined net earnings without other income support</b>					\$46,246.06	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,975.00	
Total Working for Families assistance after abatement					\$11,418.00	
Maximum accommodation supplement					\$15,860.00	
Abatement on accommodation supplement					\$5,460.00	
Total accommodation supplement after abatement					\$10,400.00	
<b>Effective annual earnings for the household</b>					\$68,064.06	
<b>Percentage increase in minimum wage</b>					6.06%	
<b>Percentage increase in annual earnings</b>					1.45%	

Scenario 1d: \$17.70						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,462.00	\$511.74	\$30,842.26
<b>Parent B</b>	20	\$354.00	\$18,408.00	\$2,241.00	\$255.87	\$15,911.13
<b>Combined net earnings without other income support</b>					\$46,753.39	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$3,131.00	
Total Working for Families assistance after abatement					\$11,262.00	
Maximum accommodation supplement					\$15,860.00	
Abatement on accommodation supplement					\$5,616.00	
Total accommodation supplement after abatement					\$10,244.00	
<b>Effective annual earnings for the household</b>					\$68,259.39	
<b>Percentage increase in minimum wage</b>					7.27%	
<b>Percentage increase in annual earnings</b>					1.74%	

Scenario 1e: \$18.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,572.00	\$520.42	\$31,347.58
<b>Parent B</b>	20	\$360.00	\$18,720.00	\$2,296.00	\$260.21	\$16,163.79
<b>Combined net earnings without other income support</b>				\$47,511.38		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$3,365.00		
Total Working for Families assistance after abatement				\$11,028.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$5,850.00		
Total accommodation supplement after abatement				\$10,010.00		
<b>Effective annual earnings for the household</b>				\$68,549.38		
<b>Percentage increase in minimum wage</b>				9.09%		
<b>Percentage increase in annual earnings</b>				2.17%		

Scenario 1f: \$18.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,754.00	\$534.87	\$32,191.13
<b>Parent B</b>	20	\$370.00	\$19,240.00	\$2,387.00	\$267.44	\$16,585.56
<b>Combined net earnings without other income support</b>				\$48,776.69		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$3,755.00		
Total Working for Families assistance after abatement				\$10,638.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$6,240.00		
Total accommodation supplement after abatement				\$9,620.00		
<b>Effective annual earnings for the household</b>				\$69,034.69		
<b>Percentage increase in minimum wage</b>				12.12%		
<b>Percentage increase in annual earnings</b>				2.89%		

Scenario 1g: \$20.55						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$822.00	\$42,744.00	\$6,500.20	\$594.14	\$35,649.66
Parent B	20	\$411.00	\$21,372.00	\$2,760.10	\$297.07	\$18,314.83
<b>Combined net earnings without other income support</b>				\$53,964.49		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$5,354.00		
Total Working for Families assistance after abatement				\$9,039.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$7,839.00		
Total accommodation supplement after abatement				\$8,021.00		
<b>Effective annual earnings for the household</b>				\$71,024.49		
<b>Percentage increase in minimum wage</b>				24.55%		
<b>Percentage increase in annual earnings</b>				5.86%		

**Scenario 2 - A couple with two children working a combined 60 hours per week, living in Ashburton, Canterbury paying median rent of \$380**

Scenario 2a: \$16.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
Parent B	20	\$330.00	\$17,160.00	\$2,023.00	\$238.52	\$14,898.48
<b>Combined net earnings without other income support</b>				\$43,715.43		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$2,195.00		
Total Working for Families assistance after abatement				\$12,198.00		
Maximum accommodation supplement				\$9,318.40		
Abatement on accommodation supplement				\$4,680.00		
Total accommodation supplement after abatement				\$4,638.40		
<b>Effective annual earnings for the household</b>				\$60,551.83		
<b>Percentage increase in minimum wage</b>				0.00%		
<b>Percentage increase in annual earnings</b>				0.00%		

Scenario 2b: \$17.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,208.00	\$491.50	\$29,660.50
<b>Parent B</b>	20	\$340.00	\$17,680.00	\$2,114.00	\$245.75	\$15,320.25
<b>Combined net earnings without other income support</b>					\$44,980.74	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,585.00	
Total Working for Families assistance after abatement					\$11,808.00	
Maximum accommodation supplement					\$9,318.40	
Abatement on accommodation supplement					\$5,070.00	
Total accommodation supplement after abatement					\$4,248.40	
<b>Effective annual earnings for the household</b>					\$61,037.14	
<b>Percentage increase in minimum wage</b>					3.03%	
<b>Percentage increase in annual earnings</b>					0.80%	

Scenario 2c: \$17.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,390.00	\$505.96	\$30,504.04
<b>Parent B</b>	20	\$350.00	\$18,200.00	\$2,205.00	\$252.98	\$15,742.02
<b>Combined net earnings without other income support</b>					\$46,246.06	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,975.00	
Total Working for Families assistance after abatement					\$11,418.00	
Maximum accommodation supplement					\$9,318.40	
Abatement on accommodation supplement					\$5,460.00	
Total accommodation supplement after abatement					\$3,858.40	
<b>Effective annual earnings for the household</b>					\$61,522.46	
<b>Percentage increase in minimum wage</b>					6.06%	
<b>Percentage increase in annual earnings</b>					1.60%	

Scenario 2d: \$17.70						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,462.00	\$511.74	\$30,842.26
<b>Parent B</b>	20	\$354.00	\$18,408.00	\$2,241.00	\$255.87	\$15,911.13
<b>Combined net earnings without other income support</b>				\$46,753.39		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$3,131.00		
Total Working for Families assistance after abatement				\$11,262.00		
Maximum accommodation supplement				\$9,318.40		
Abatement on accommodation supplement				\$5,616.00		
Total accommodation supplement after abatement				\$3,702.40		
<b>Effective annual earnings for the household</b>				\$61,717.79		
<b>Percentage increase in minimum wage</b>				7.27%		
<b>Percentage increase in annual earnings</b>				1.93%		

Scenario 2e: \$18.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,572.00	\$520.42	\$31,347.58
<b>Parent B</b>	20	\$360.00	\$18,720.00	\$2,296.00	\$260.21	\$16,163.79
<b>Combined net earnings without other income support</b>				\$47,511.38		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$3,365.00		
Total Working for Families assistance after abatement				\$11,028.00		
Maximum accommodation supplement				\$9,318.40		
Abatement on accommodation supplement				\$5,850.00		
Total accommodation supplement after abatement				\$3,468.40		
<b>Effective annual earnings for the household</b>				\$62,007.78		
<b>Percentage increase in minimum wage</b>				9.09%		
<b>Percentage increase in annual earnings</b>				2.40%		

<b>Scenario 2f: \$18.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,754.00	\$534.87	\$32,191.13
<b>Parent B</b>	20	\$370.00	\$19,240.00	\$2,387.00	\$267.44	\$16,585.56
<b>Combined net earnings without other income support</b>				\$48,776.69		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$3,755.00		
Total Working for Families assistance after abatement				\$10,638.00		
Maximum accommodation supplement				\$9,318.40		
Abatement on accommodation supplement				\$6,240.00		
Total accommodation supplement after abatement				\$3,078.40		
<b>Effective annual earnings for the household</b>				\$62,493.09		
<b>Percentage increase in minimum wage</b>				12.12%		
<b>Percentage increase in annual earnings</b>				3.21%		

<b>Scenario 2g: \$20.55</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$822.00	\$42,744.00	\$6,500.20	\$594.14	\$35,649.66
<b>Parent B</b>	20	\$411.00	\$21,372.00	\$2,760.10	\$297.07	\$18,314.83
<b>Combined net earnings without other income support</b>				\$53,964.49		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$5,354.00		
Total Working for Families assistance after abatement				\$9,039.00		
Maximum accommodation supplement				\$9,318.40		
Abatement on accommodation supplement				\$7,839.00		
Total accommodation supplement after abatement				\$1,479.40		
<b>Effective annual earnings for the household</b>				\$64,482.89		
<b>Percentage increase in minimum wage</b>				24.55%		
<b>Percentage increase in annual earnings</b>				6.49%		

**Scenario 3 A couple with two children working a combined 60 hours per week, living in Whakatane, Bay of Plenty paying median rent of \$390**

<b>Scenario 3a: \$16.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
<b>Parent B</b>	20	\$330.00	\$17,160.00	\$2,023.00	\$238.52	\$14,898.48
<b>Combined net earnings without other income support</b>					\$43,715.43	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,195.00	
Total Working for Families assistance after abatement					\$12,198.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$4,680.00	
Total accommodation supplement after abatement					\$3,640.00	
<b>Effective annual earnings for the household</b>					\$59,553.43	
<b>Percentage increase in minimum wage</b>					0.00%	
<b>Percentage increase in annual earnings</b>					0.00%	

<b>Scenario 3b: \$17.00</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,208.00	\$491.50	\$29,660.50
<b>Parent B</b>	20	\$340.00	\$17,680.00	\$2,114.00	\$245.75	\$15,320.25
<b>Combined net earnings without other income support</b>					\$44,980.74	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,585.00	
Total Working for Families assistance after abatement					\$11,808.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$5,070.00	
Total accommodation supplement after abatement					\$3,250.00	
<b>Effective annual earnings for the household</b>					\$60,038.74	
<b>Percentage increase in minimum wage</b>					3.03%	
<b>Percentage increase in annual earnings</b>					0.81%	

<b>Scenario 3c: \$17.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,390.00	\$505.96	\$30,504.04
<b>Parent B</b>	20	\$350.00	\$18,200.00	\$2,205.00	\$252.98	\$15,742.02
<b>Combined net earnings without other income support</b>					\$46,246.06	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$2,975.00	
Total Working for Families assistance after abatement					\$11,418.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$5,460.00	
Total accommodation supplement after abatement					\$2,860.00	
<b>Effective annual earnings for the household</b>					\$60,524.06	
<b>Percentage increase in minimum wage</b>					6.06%	
<b>Percentage increase in annual earnings</b>					1.63%	

<b>Scenario 3d: \$17.70</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,462.00	\$511.74	\$30,842.26
<b>Parent B</b>	20	\$354.00	\$18,408.00	\$2,241.00	\$255.87	\$15,911.13
<b>Combined net earnings without other income support</b>					\$46,753.39	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$3,131.00	
Total Working for Families assistance after abatement					\$11,262.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$5,616.00	
Total accommodation supplement after abatement					\$2,704.00	
<b>Effective annual earnings for the household</b>					\$60,719.39	
<b>Percentage increase in minimum wage</b>					7.27%	
<b>Percentage increase in annual earnings</b>					1.96%	

<b>Scenario 3e: \$18.00</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,572.00	\$520.42	\$31,347.58
<b>Parent B</b>	20	\$360.00	\$18,720.00	\$2,296.00	\$260.21	\$16,163.79
<b>Combined net earnings without other income support</b>					\$47,511.38	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$3,365.00	
Total Working for Families assistance after abatement					\$11,028.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$5,850.00	
Total accommodation supplement after abatement					\$2,470.00	
<b>Effective annual earnings for the household</b>					\$61,009.38	
<b>Percentage increase in minimum wage</b>					9.09%	
<b>Percentage increase in annual earnings</b>					2.44%	

<b>Scenario 3f: \$18.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,754.00	\$534.87	\$32,191.13
<b>Parent B</b>	20	\$370.00	\$19,240.00	\$2,387.00	\$267.44	\$16,585.56
<b>Combined net earnings without other income support</b>					\$48,776.69	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$3,755.00	
Total Working for Families assistance after abatement					\$10,638.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$6,240.00	
Total accommodation supplement after abatement					\$2,080.00	
<b>Effective annual earnings for the household</b>					\$61,494.69	
<b>Percentage increase in minimum wage</b>					12.12%	
<b>Percentage increase in annual earnings</b>					3.26%	

<b>Scenario 3g: \$20.55</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$822.00	\$42,744.00	\$6,500.20	\$594.14	\$35,649.66
<b>Parent B</b>	20	\$411.00	\$21,372.00	\$2,760.10	\$297.07	\$18,314.83
<b>Combined net earnings without other income support</b>					\$53,964.49	
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$5,354.00	
Total Working for Families assistance after abatement					\$9,039.00	
Maximum accommodation supplement					\$8,320.00	
Abatement on accommodation supplement					\$7,839.00	
Total accommodation supplement after abatement					\$481.00	
<b>Effective annual earnings for the household</b>					<b>\$63,484.49</b>	
<b>Percentage increase in minimum wage</b>					<b>24.55%</b>	
<b>Percentage increase in annual earnings</b>					<b>6.60%</b>	

**Scenario 4 A solo parent with two children working 40 hours per week, living in Avondale, Auckland paying median rent of \$560**

<b>Scenario 4a: \$16.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
Maximum In Work Tax Credit					\$3,770.00	
Maximum Family Tax Credit					\$10,623.00	
Total abatement on family support due to income					\$0.00	
Total Working for Families assistance after abatement					\$14,393.00	
Maximum accommodation supplement					\$15,860.00	
Abatement on accommodation supplement					\$1,326.00	
Total accommodation supplement after abatement					\$14,534.00	
<b>Effective annual earnings for the household</b>					<b>\$57,743.95</b>	
<b>Percentage increase in minimum wage</b>					<b>0.00%</b>	
<b>Percentage increase in annual earnings</b>					<b>0.00%</b>	

Scenario 4b: \$17.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,026.00	\$491.50	\$29,842.50
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$1,586.00		
Total accommodation supplement after abatement				\$14,274.00		
<b>Effective annual earnings for the household</b>				\$58,509.50		
<b>Percentage increase in minimum wage</b>				3.03%		
<b>Percentage increase in annual earnings</b>				1.33%		

Scenario 4c: \$17.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,026.00	\$505.96	\$30,868.04
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$1,846.00		
Total accommodation supplement after abatement				\$14,014.00		
<b>Effective annual earnings for the household</b>				\$59,275.04		
<b>Percentage increase in minimum wage</b>				6.06%		
<b>Percentage increase in annual earnings</b>				2.65%		

Scenario 4d: \$17.70						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,026.00	\$511.74	\$31,278.26
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$1,950.00		
Total accommodation supplement after abatement				\$13,910.00		
<b>Effective annual earnings for the household</b>				\$59,581.26		
<b>Percentage increase in minimum wage</b>				7.27%		
<b>Percentage increase in annual earnings</b>				3.18%		

<b>Scenario 4e: \$18.00</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,026.00	\$520.42	\$31,893.58
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$2,106.00		
Total accommodation supplement after abatement				\$13,754.00		
<b>Effective annual earnings for the household</b>				<b>\$60,040.58</b>		
<b>Percentage increase in minimum wage</b>				<b>9.09%</b>		
<b>Percentage increase in annual earnings</b>				<b>3.98%</b>		

<b>Scenario 4f: \$18.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,026.00	\$534.87	\$32,919.13
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$2,366.00		
Total accommodation supplement after abatement				\$13,494.00		
<b>Effective annual earnings for the household</b>				<b>\$60,806.13</b>		
<b>Percentage increase in minimum wage</b>				<b>12.12%</b>		
<b>Percentage increase in annual earnings</b>				<b>5.30%</b>		

<b>Scenario 4g: \$20.55</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$822.00	\$42,744.00	\$5,026.00	\$594.14	\$37,123.86
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$3,432.00		
Total accommodation supplement after abatement				\$12,428.00		
<b>Effective annual earnings for the household</b>				<b>\$63,944.86</b>		
<b>Percentage increase in minimum wage</b>				<b>24.55%</b>		
<b>Percentage increase in annual earnings</b>				<b>10.74%</b>		

**Scenario 5 A solo parent with two children working 40 hours per week at \$16.50,  
living in Ashburton, Canterbury paying median rent of \$380**

<b>Scenario 5a: \$16.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$1,326.00		
Total accommodation supplement after abatement				\$8,429.20		
<b>Effective annual earnings for the household</b>				<b>\$51,639.15</b>		
<b>Percentage increase in minimum wage</b>				0.00%		
<b>Percentage increase in annual earnings</b>				0.00%		

<b>Scenario 5b: \$17.00</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,026.00	\$491.50	\$29,842.50
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$1,586.00		
Total accommodation supplement after abatement				\$8,169.20		
<b>Effective annual earnings for the household</b>				<b>\$52,404.70</b>		
<b>Percentage increase in minimum wage</b>				3.03%		
<b>Percentage increase in annual earnings</b>				1.48%		

<b>Scenario 5c: \$17.50</b>						
	<b>Weekly work hours</b>	<b>Weekly earnings</b>	<b>Annual Earnings</b>	<b>Tax</b>	<b>ACC</b>	<b>Net earnings</b>
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,026.00	\$505.96	\$30,868.04
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$1,846.00		
Total accommodation supplement after abatement				\$7,909.20		
<b>Effective annual earnings for the household</b>				<b>\$53,170.24</b>		
<b>Percentage increase in minimum wage</b>				6.06%		
<b>Percentage increase in annual earnings</b>				2.96%		

Scenario 5d: \$17.70						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,026.00	\$511.74	\$31,278.26
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$1,950.00		
Total accommodation supplement after abatement				\$7,805.20		
<b>Effective annual earnings for the household</b>				<b>\$53,476.46</b>		
<b>Percentage increase in minimum wage</b>				<b>7.27%</b>		
<b>Percentage increase in annual earnings</b>				<b>3.56%</b>		

Scenario 5e: \$18.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,026.00	\$520.42	\$31,893.58
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$2,106.00		
Total accommodation supplement after abatement				\$7,649.20		
<b>Effective annual earnings for the household</b>				<b>\$53,935.78</b>		
<b>Percentage increase in minimum wage</b>				<b>9.09%</b>		
<b>Percentage increase in annual earnings</b>				<b>4.45%</b>		

Scenario 5f: \$18.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,026.00	\$534.87	\$32,919.13
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$2,366.00		
Total accommodation supplement after abatement				\$7,389.20		
<b>Effective annual earnings for the household</b>				<b>\$54,701.33</b>		
<b>Percentage increase in minimum wage</b>				<b>12.12%</b>		
<b>Percentage increase in annual earnings</b>				<b>5.93%</b>		

Scenario 5g: \$20.55						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$822.00	\$42,744.00	\$5,026.00	\$594.14	\$37,123.86
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$9,755.20		
Abatement on accommodation supplement				\$3,432.00		
Total accommodation supplement after abatement				\$6,323.20		
<b>Effective annual earnings for the household</b>				<b>\$57,840.06</b>		
<b>Percentage increase in minimum wage</b>				<b>24.55%</b>		
<b>Percentage increase in annual earnings</b>				<b>12.01%</b>		

**Scenario 6 A solo parent with two children working 40 hours per week, living in Whakatane, Bay of Plenty paying median rent of \$390**

Scenario 6a: \$16.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$660.00	\$34,320.00	\$5,026.00	\$477.05	\$28,816.95
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,326.00		
Total accommodation supplement after abatement				\$6,994.00		
<b>Effective annual earnings for the household</b>				<b>\$50,203.95</b>		
<b>Percentage increase in minimum wage</b>				<b>0.00%</b>		
<b>Percentage increase in annual earnings</b>				<b>0.00%</b>		

Scenario 6b: \$17.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$680.00	\$35,360.00	\$5,026.00	\$491.50	\$29,842.50
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,586.00		
Total accommodation supplement after abatement				\$6,734.00		
<b>Effective annual earnings for the household</b>				<b>\$50,969.50</b>		
<b>Percentage increase in minimum wage</b>				<b>3.03%</b>		
<b>Percentage increase in annual earnings</b>				<b>1.52%</b>		

Scenario 6c: \$17.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$700.00	\$36,400.00	\$5,026.00	\$505.96	\$30,868.04
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,846.00		
Total accommodation supplement after abatement				\$6,474.00		
<b>Effective annual earnings for the household</b>				<b>\$51,735.04</b>		
<b>Percentage increase in minimum wage</b>				<b>6.06%</b>		
<b>Percentage increase in annual earnings</b>				<b>3.05%</b>		

Scenario 6d: \$17.70						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$708.00	\$36,816.00	\$5,026.00	\$511.74	\$31,278.26
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,950.00		
Total accommodation supplement after abatement				\$6,370.00		
<b>Effective annual earnings for the household</b>				<b>\$52,041.26</b>		
<b>Percentage increase in minimum wage</b>				<b>7.27%</b>		
<b>Percentage increase in annual earnings</b>				<b>3.66%</b>		

Scenario 6e: \$18.00						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$720.00	\$37,440.00	\$5,026.00	\$520.42	\$31,893.58
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$2,106.00		
Total accommodation supplement after abatement				\$6,214.00		
<b>Effective annual earnings for the household</b>				<b>\$52,500.58</b>		
<b>Percentage increase in minimum wage</b>				<b>9.09%</b>		
<b>Percentage increase in annual earnings</b>				<b>4.57%</b>		

Scenario 6f: \$18.50						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$740.00	\$38,480.00	\$5,026.00	\$534.87	\$32,919.13
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$2,366.00		
Total accommodation supplement after abatement				\$5,954.00		
<b>Effective annual earnings for the household</b>				<b>\$53,266.13</b>		
<b>Percentage increase in minimum wage</b>				<b>12.12%</b>		
<b>Percentage increase in annual earnings</b>				<b>6.10%</b>		

Scenario 6g: \$20.55						
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
<b>Parent A</b>	40	\$822.00	\$42,744.00	\$5,026.00	\$594.14	\$37,123.86
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$3,432.00		
Total accommodation supplement after abatement				\$4,888.00		
<b>Effective annual earnings for the household</b>				<b>\$56,404.86</b>		
<b>Percentage increase in minimum wage</b>				<b>24.55%</b>		
<b>Percentage increase in annual earnings</b>				<b>12.35%</b>		