[Press release: Largest rise in National Minimum Wage rates for young people in a decade]

Today the Low Pay Commission (LPC), the body that recommends the rates of the National Minimum Wages (NMW), including the National Living Wage (NLW), launches its detailed annual assessment of the labour market and explains the rationale for its recommendations.

The Government has accepted all of the LPC's recommendations, including for the largest increases in a decade for the rates that apply to 18-20 and 21-24 year olds.

On 1 April next year (2018) these rates will increase by 4.7 per cent and 5.4 per cent respectively. These are greater percentage increases than both that of the National Living Wage, which will increase by 4.4 per cent, and forecast average earnings growth of between 2.5 and 3 per cent. (See table below for full details of the current and future rates).

The new rates will boost the earnings of between 260,000 and 360,000 young workers directly, and many more young workers will benefit. This is for two reasons: firstly, these increases lead to 'spillover' effects further up the pay distribution; secondly, even though they are not entitled to it, some young workers benefit from increases in the National Living Wage. We estimate that up to 45 per cent of 18-24 year old workers – or 1.3 million young people – could receive a higher pay increase than they would have done in the absence of the NLW.

In the years following the recession the LPC recommended lower increases in the NMW for young people to protect their employment position. This is because young people are more at risk of unemployment than older workers in the event of an economic downturn. Periods out of work can cause 'scarring' effects for young people, whereby their earnings and employment chances are still affected years later.

When making those recommendations, the LPC also made commitments to restore any lost 'relativities' once economic conditions improved. The LPC judged that there was sufficiently strong evidence to justify being more ambitious for the youth rates:

- Employment in the UK continues to grow more strongly than forecast and is at record levels.
- Unemployment has fallen to its lowest rate since 1975.
- There have been ongoing improvements in the employment and unemployment rates of 18-24 year olds, despite two increases in their NMW rates in quick succession in the last year.
- Wage growth for those aged 18-24 has been higher than for those aged 25 and over for the last three years. As a result, the bite, which is the

NMW as a percentage of median earnings and a key measure of pressure, has fallen for workers of these ages.
- Both employers and unions raised the importance of fairness and employee relations between age groups in the workforce.

The LPC recommended slightly lower increases for 16-17 year olds at 3.7 per cent, or 15 pence, from £4.05 to £4.20. The reason for this is that earnings and employment chances have not improved as fast as for the other age groups. But, while this increase is lower than for the other rates, it is still the highest in 10 years for this age group.

Commenting on the analysis, LPC Chair Bryan Sanderson said:

> The LPC is pleased that the Government has accepted our recommendations to increase the NMW rates for young people. Many thousands will benefit directly and thousands more will benefit from the increases to the NLW.
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> If economic conditions, particularly the labour market for younger workers, remain positive or improve then there will be grounds for further increases in NMW rates for younger workers in the future.

The Government also accepted the LPC’s recommendation for the National Living Wage to increase it to £7.83 in April 2018. The LPC’s approach is different for the National Living Wage and the other National Minimum Wage rates. On the former, the Government has given the LPC a target to reach 60 per cent of median earnings by 2020, subject to sustained economic growth. On the latter, the LPC is asked to make recommendations that lift rates as high as possible without damaging employment. It was the LPC’s judgement that the evidence was consistent with the NLW remaining on its path to 60 per cent of median earnings with the April 2018 uplift.

The April 2017 uprating of the National Living Wage again delivered a substantial increase in earnings for workers. It increased by 4.2 per cent, double the average wage growth for all workers aged 25 and over of 2.1 per cent. Despite the April 2017 uprating being lower than the previous year, when the NLW was first introduced, (30p and 4.2 per cent compared with 50p and 10.8 per cent) its ‘spillover’ effects are greater. We estimate that the NLW indirectly raised the earnings of up to 7 million workers as employers sought to maintain a pay differential with the NLW.

These differential effects occur when employers try to maintain a pay gap with the NLW for other staff, for example the manager or team leader of a group of minimum wage workers. Employers tell us this is a major challenge because of the cost. Their concern is that the squeezing of these differentials is causing problems around motivation and progression – when differentials are low employer struggle to encourage staff to apply for managerial or supervisory roles.

Notes:

1. The Low Pay Commission is an independent body made up of employers, trade unions and experts whose role is to advise the Government on the minimum wage. The National Living Wage is the legally binding pay floor for workers aged 25 and over. The other minimum wage rates comprise: the 21-24 Year Old Rate, the 18-20 Year Old Rate, the 16-17 Year Old Rate and the Apprentice Rate.

2. The LPC's remit prescribes different requirements in relation to the NLW than for the four other bands of the minimum wage. For the NLW we are asked to make recommendations on the pace of increase towards a target: an 'ambition…that it should continue to increase to reach 60 per cent of median earnings by 2020, subject to sustained economic growth'. For the other rates we are asked to 'help as many low-paid workers as possible without damaging their employment prospects'.

3. Our full recommendations for April 2018 and underpinning analysis were published in our 19th report. The rationale for our recommendations is also included in a letter from the LPC Chair to the Secretary of State for Business, Energy and Industrial Strategy.

4. We said in our report in March 2016 that, in the absence of economic shocks or other strong evidence, we thought that the default for the NLW would be a straight line rolling path to the 60 per cent target – evenly spreading our (annually updated) estimate of the increase in relative value needed to hit the target over the remaining years to 2020. Our recommendation for the NLW reflects this approach, and the cash level is in line with the indicative figure we set out last October – £7.85.

5. The new NLW rate will increase pay for typical minimum wage workers (working 30 hours per week) by just over £500 per year. An increase of 4.4 per cent is, after the introduction of the National Living Wage in April 2016, the largest increase in the main rate of the minimum wage since 2006.

6. We estimate that the £7.83 rate will raise coverage – the number of workers paid at or below the NLW – by up to 530,000, from 1.6 million jobs (6.4 per cent of the cohort) in April 2017 to 2.1 million (8.6 per cent) in April 2018. Looking at progress towards the 60 per cent target, we estimate that the £7.83 rate will represent an increase in the relative value of the NLW for workers aged 25 and over of 1.1 percentage points, up from 56.9 per cent of the value of typical earnings (October 2017) to 58 per cent (October 2018).

7. Rates for workers aged under 25, and apprentices, are lower than the NLW

in reflection of lower average earnings and higher unemployment rates. International evidence also suggests that younger workers are more exposed to employment risks arising from the pay floor than older workers. Unlike the NLW (where some consequences for employment have been accepted by the Government), the LPC’s remit requires us to set the other rates as high as possible without causing damage to jobs and hours.

8. Employment and unemployment rates for 18-24 year olds not in full-time education have seen quarter-on-quarter improvement for the last two years or longer. As a consequence, in June 2017, the employment rate for 21-24 year olds was 8 percentage points higher – and the unemployment rate 7.5 percentage points lower – than in June 2013. The employment rate for 18-20 year olds was 2.0 percentage points higher – and the unemployment rate 4.3 percentage points lower – than in June 2015. These continuous improvements were maintained despite the relatively large increases in the NMW in October 2016.

9. We have also provided an indicative rate for the National Living Wage from April 2019. This is inevitably uncertain because pay forecasts are likely to change, but using those available in October we project that the on-course rate will be £8.20. Using OBR forecasts published last week, the projected figure is £8.18. For 2020, the LPC’s projected rate for 60 per cent of median earnings is £8.61, within a range of £8.55 to £8.66. Using its forecasts published last week, the OBR wage growth projections give a slightly lower estimated figure for 2020, of £8.57.

10. The National Living Wage is different from the UK Living Wage and the London Living Wage. Differences include that: the UK Living Wage and the London Living Wage are voluntary pay benchmarks that employers can sign up to if they wish, not legally binding requirements; the hourly rate of the UK Living Wage and London Living Wage is based on an attempt to measure need, whereas the National Living Wage is based on a target relationship between its level and average pay; the UK Living Wage and London Living Wage apply to workers aged 18 and over, the National Living Wage to workers aged 25 and over. The Low Pay Commission has no role in the UK Living Wage or the London Living Wage.

11. The members of the Low Pay Commission comprise:

- Bryan Sanderson, Chair
- Sarah Brown, Professor of Economics at the University of Sheffield
- Kay Carberry, TUC
- Neil Carberry, Managing Director, People and Infrastructure, CBI
- Clare Chapman, Non-Executive Director & Remuneration Committee Chair at Kingfisher PLC
- Richard Dickens, Professor of Economics, Sussex University
- Peter Donaldson, formerly Managing Director, D5 Consulting Ltd

- John Hannett, General Secretary, Usdaw
- Brian Strutton, General Secretary, BALPA

Our recommendations comprised:

	Current rate	Future rate (from April 2018)	Increase
NLW	£7.50	£7.83	4.4%
21-24 rate	£7.05	£7.38	4.7%
18-20 rate	£5.60	£5.90	5.4%
16-17 rate	£4.05	£4.20	3.7%
Apprentice rate	£3.50	£3.70	5.7%
Accommodation offset	£6.40	£7.00	9.4%