



Impact of the Living Wage

At a glance facts

New compulsory National Living Wage to start in April 2016

- A compulsory £7.20 National Living Wage (NLW) will replace the £6.70 minimum wage from April 2016, affecting workers over 25
- The rates for under-25s will stay the same
- It is estimated that 54% of the UK's employers will be affected when the NLW is introduced
- Small and micro firms will be impacted the greatest as they hold 37% of all minimum wage jobs with the wage bills for firms employing less than 10 people rising by around 1.5%
- Specific sectors, in particular retail and leisure, will see the greatest wage bill rises
- By 2020 the NLW is expected to rise to £9.35 per hour
- The effects of the NLW are likely to ripple further up the earnings ladder if job role / pay differentiations are maintained

Voluntary Living Wage rates have increased

- A Voluntary Living Wage for over 18s, accredited by the Living Wage Foundation, has seen an increase in rates, to £8.25 an hour outside London and £9.40 an hour inside London
- What happens next for younger workers is uncertain as those under 25 will not benefit from the NLW. The upside is that some employers may prefer younger, cheaper workers over their older counterparts for this reason
- There is a risk that if the NLW was applied to younger, less experienced workers there may well be bigger employment effects as employers may opt to employ older / more experienced workers

Other potential cost impacts for employers:

- **The new Apprenticeship Levy**

A new charge of 0.5% on company payrolls affecting businesses with a wage bill of more than £3m. It is intended to help fund three million apprenticeships.

- **Auto-Enrolment pensions**

There are two kinds of costs here

1. Fees for administration, set-up etc. - These will vary according to provider, scheme quality, etc.
2. Contributions that you pay into the scheme - These are the payments that you and each employee make into the employee's pension. It's how each pension pot is built up. There are minimum employer contribution levels that have been set by the Pension Regulator and you can choose a higher contribution level if you want.

Both the Apprentice Levy and the Auto-Enrolment costs to businesses may be directly affected by the introduction of the NLW. As the wage bill increases with NLW so will the likelihood of meeting the Apprenticeship Levy £3m threshold (and paying of 0.5% of a greater wage bill if this threshold is met/exceeded). With Auto-Enrolment there will be increased employer pension contributions required for employees as they are earning more.

How can businesses prepare for the cost increases?

Here planning is key and there are a number of measures for consideration (some less appealing than others!), for example:

- Plan to increase productivity and efficiency
- Plan to take a reduction in profits
- Raise prices
- Reduce overtime and bonuses
- Freeze pay rises
- Reduce the workforce

Steps to ensure employers comply with new NLW rates

- Find out which staff are eligible for the new rate
- Update your company payroll in time for 1 April 2016
- Communicate changes to staff

For further information and help with planning for and implementing the NLW and other key changes highlighted above, please contact Vicki Harper, Director of Client Services – vicki.h@bwm.co.uk