Pay, non-pay benefits, young people and the minimum wage

A research report for the Low Pay Commission

from

Incomes Data Services

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Incomes Data Services Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ
UK 0845 077 2911 **Fax** 020 7393 8081
www.incomesdata.co.uk ids@incomesdata.co.uk

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This report has been prepared by Incomes Data Services (IDS) for the Low Pay Commission.

This paper has been researched and written by:

Laura James
Ken Mulkearn
Lois Wiggins
Louisa Withers

Incomes Data Services
Finsbury Tower
103-105 Bunhill Row
London
EC1Y 8LZ

Telephone: 0845 077 2911
Facsimile: 0845 310 5517
E-mail: ids@incomesdata.co.uk
Website: www.incomesdata.co.uk

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Executive summary

- Increases to pay rates at the bottom end of pay structures have continued to be influenced by the size of the increase to the National Minimum Wage, however the trend in differentials has been more unpredictable during recession.
- Around a third of employers operate age-related pay but the vast majority set their own youth rates rather than making use of the statutory youth and development rates.
- IDS had previously monitored a trend away from paying different rates to younger workers in the retail sector and this trend has continued in the latest period.
- Over the longer period there has been a convergence in the age at which adult rates are paid at firms with age-related pay to either 18 or 21, with 21 being the most common.
- Low-paid employees often receive premium pay for working unsocial hours, although IDS has monitored a trend away from paying premiums on Sundays and reducing premiums for bank holidays which began before the recession and has continued in the latest period.
- Sunday working is increasingly paid at basic pay, while most bank holidays still attract premiums albeit at lower levels than previously. Premiums for night working have been more resilient and continue to be paid in many cases.
- The reward package for low-paid workers also includes other non-wage benefits, however these are mostly low-cost and packages are generally less generous than for higher-paid colleagues.
- During recession some employers have enhanced their benefits offering, however they have not supplied details on take-up rates for new benefits, some of which (e.g. salary sacrifice schemes) are likely to be low among low-paid workers.
- The impact of pensions auto-enrolment may be less than expected but it is still early days and many smaller employers have yet to begin the process.
- Employers report lower opt-out rates among low-paid workers than anticipated, although in the majority of cases respondents reported it was too early to provide a figure for opt-out rates.

1 Introduction

This report from Incomes Data Services (IDS) examines the impact of the National Minimum Wage (NMW) on pay, non-pay benefits and youth rates, focusing on the period since the onset of recession in July 2008. It was commissioned by the Low Pay Commission (LPC) as part of its ongoing remit to monitor and assess the impact of the minimum wage and to advise Government on subsequent increases and its application more generally.

The main objectives of this report are to:

- explore the relationship between the minimum wage and the rates paid to employees at the bottom end of pay structures, specifically exploring movements in the lowest rates of pay since the onset of recession;
- examine the use of pay premiums for unsocial hours working and how this has changed since the start of recession;
- examine the use of age-related pay, exploring any changes following the onset of recession and the reduction in the age at which the adult statutory minimum wage applies; and
- monitor the effect of the recession on the provision of non-pay benefits to low-paid employees.

1.1 Methodology

This report is based on a combination of examining existing IDS data and data collected by a survey conducted specifically for the purposes of this research. IDS data cover named organisations in low-paying sectors, as well as in other sectors of the economy, and have been gathered by IDS researchers through semi-structured interviews, surveys and company visits with HR practitioners. The low-paying sectors covered by this report are retail, hotels and hospitality, leisure, care homes, and childcare. In preparing this report IDS has adopted a range of methodologies, as outlined in the following sections.

1.1.1 Company pay rates analysis

Data on company pay rates, as monitored by IDS, has been used to construct a panel of 30 organisations in the low-paying sectors. This tracks the gap between the lowest rate of pay in each organisation and the adult NMW, referred to as the 'differential'. The lowest rate refers to the bottom of the main lowest-paid grade in 'national' locations i.e. the lowest-paid zone, outside the higher-paying areas of London and the South East. The only variation is in the retail sector, where we have taken the established rate since this is the main grade for the lowest-paid staff. The role covered varies by sector but typically covers retail assistants in retail, unqualified care assistants in care homes, and serving staff in hospitality. We have produced charts for each organisation in the panel, tracking movements in the rate paid to employees at the bottom end of each pay structure and the differential between this rate and the NMW over time. These are provided in Appendix 1. The findings on company differentials are presented in section 2.2.

The analysis presented in sections 2.2 and 2.3 examines the differential between the median starting rate for the bottom grade and the minimum wage for a broader sample of firms. This draws on pay data collected in the annual IDS surveys of pay and conditions in the retail and housing and social care sectors. Sample sizes vary each year, as shown in Table 1.

Table 1 Samples sizes for annual IDS surveys of pay in retail and social care, 2007-2012

Year of survey	Number of responses	
	Housing and social care	**Retail**
2006/07	86	25
2007/08	56	27
2008/09	65	21
2009/10	74	27
2010/11	70	29
2011/12	56	29

2.1.1 Analysis of changes in pay premiums

Information on the use of pay premiums gathered by the employer survey (see 4.1.1.) is presented in sections 3.1 and 3.2. We also undertook an analysis of changes in premiums for unsocial hours based on existing IDS data. This is based on data collected by IDS researchers on premiums paid for night work, Sundays and bank holidays from 2007 to 2012 at 10 retailers. All premiums have been converted to percentages for analysis purposes, so double-time (2T) has been treated as a premium worth 100 per cent. Similarly time-and-a-third (T+1/3) has been treated as a premium worth 33 per cent and so forth. The averages and medians stated are the average or median premium across the sample for a given year. Quoted reductions are reductions in the average premium. The findings are presented in sections 3.3 to 3.5.

3.1.1 Overview of age-related pay

The overview of age-related pay combines data collected by the survey on age pay with existing data collected by IDS researchers. Sections 4.1 to 4.4 outline the survey results on age-related pay. Section 4.5 provides an analysis of the relativities between pay rates for younger workers at a sample of 14 retail and hospitality firms and section 4.6 provides information on changes in age-related pay from our regular monitoring.

4.1.1 Bespoke survey of employers

As part of this research we conducted an on-line survey of employers covering non-pay benefits on behalf of the LPC in April and May 2013. The electronic survey was sent to 1,155 organisations in total and we received 126 responses, a response rate of 11 per cent. Responses cover all of the main low-paying sectors, across a wide range of organisation sizes. The results are presented in section 5 of this report, with information on premium pay found in sections 3.1 and 3.2 and on age-related pay in sections 4.1 to 4.4. A copy of the survey is provided in Appendix 2. A profile of survey respondents is provided below.

(1) Profile of survey respondents

Overall smaller organisations were less-well represented in the sample than larger organisations; however 10 per cent of responses were from the smallest category of employer with fewer than 50 employees. The largest organisations, with 10,000 employees and more, are mainly in the retail and hospitality sectors, while the smallest organisations with fewer than 50 employees mainly represent care homes, children's nurseries and advisory businesses, covering an employers federation, telephone advice services and advice centres.

Table 2 Profile of survey responses by sector, 2013

Sector	Number of responses	% of responses
Care homes	25	20
Hotels & hospitality	19	15
Leisure	19	15
Retail	44	35
Other	19	15
Total	**126**	**100**

Table 3 Profile of survey responses by organisation size, 2013

Organisation size	Number of responses	% of responses
Fewer than 50 employees	13	10
50 to 249 employees	33	26
250 to 999 employees	21	17
1,000 to 9,999 employees	37	29
10,000 employees and more	22	18
Total	**126**	**100**

The survey covers 1.37 million employees, of which 1.26 million are employed at organisations with lowest pay rates of £6.50 an hour or less. The total number of low-paid employees earning less than £6.50 an hour was 224,908[1]. The median number of employees in each organisation was 700. The average was much greater at 11,406, due to a small number of very large employers in the sample.

[1] Based on respondents who specified both the total number of employees and the proportion of employees paid £6.50 an hour or less.

Table 4 Employees in the employer survey, 2013

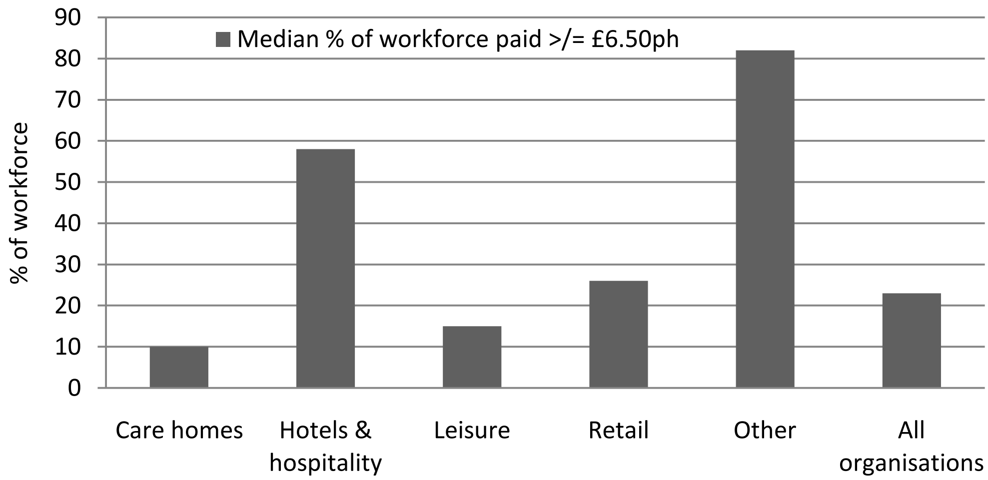
	Number of employees
Total in the survey	1,369,026
Total in organisations with employees at £6.50 an hour or less	1,263,530
Total paid £6.50 an hour or less	224,908

The survey was designed to target organisations with low-paid employees, paid £6.50 an hour or less, and 81 per cent of respondents (104 in total) fitted this category. Respondents were asked what proportion of the workforce are paid £6.50 an hour or less and the median proportion was 23 per cent. There were sector variations with care homes least likely to have employees paid at this level and employers in the hospitality sector the most likely to pay staff £6.50 an hour or less.

Table 5 Organisations with employees paid £6.50 an hour or less by sector, 2013

Sector	Number of responses	% of responses
Care homes	16	62
Hotels & hospitality	19	100
Leisure	16	84
Retail	42	93
Other	11	58
Total	**104**	**81**

Graph 1: Median proportion of employees paid £6.50 an hour or less by sector, 2013



2 Pay rates and the minimum wage

The following section examines the relationship between the National Minimum Wage (NMW) and the rates paid to employees at the bottom end of pay structures. This analysis focuses on the period since the onset of recession in July 2008 and builds on previous IDS research for the LPC examining the relationship between pay rates and the NMW in the years since its introduction.[2]

Key points

- The median increase in the bottom pay rate in 2012 was 2 per cent, slightly higher than the increase in the minimum wage of 1.8 per cent. Previously increases to the lowest rates had been in line with the minimum wage uplift. IDS has noted elsewhere that 2 per cent is something of a floor for pay rises.
- In 2012 more organisations were able to widen the gap between the lowest rate and the minimum wage than previously and fewer organisations made changes that resulted in a narrowing of the differential between their lowest rates and the minimum wage.
- The relationship between increases in the minimum wage and differentials has been more unpredictable during recession, whereas previously the two showed a negative correlation whereby if one increased the other decreased and vice versa.
- The overall differential between organisations' lowest pay rates and the minimum wage has narrowed marginally at the median since the recession, from 3.3 per cent in 2007 to 3.1 per cent in 2012. However, there are sector variations with the differential widening slightly in the retail sector, narrowing in fast food, pubs and restaurants and fluctuating in the housing and social care sector.

2.1 Increases to lowest rates during recession

Companies reacted differently to the recession when it came to reviewing pay rates, with some freezing pay in some years and others increasing pay by more than the NMW uplift. Table 6 looks at increases to lowest pay rates at a panel of 30 organisations and shows that the median increase to the lowest pay rate followed the minimum wage uplift increase between 2007 and 2011. However, in 2012 the median increase in the lowest rates was slightly higher than the NMW uplift, at 2 per cent, compared with an increase of 1.8 per cent in the NMW. This shows some employers taking advantage of a more cautious minimum wage uplift than previously. It also chimes with a broader trend in IDS pay settlement monitoring which shows something of a psychological floor for pay rises of 2 per cent.

[2] See 'The impact of the National Minimum Wage on pay setting since 1994 - A report for the Low Pay Commission', IDS, 2011; 'Monitoring the impact of the National Minimum Wage', IDS, November 2009.

Graph 2: Increases to lowest rates and in the minimum wage, 2007-2012

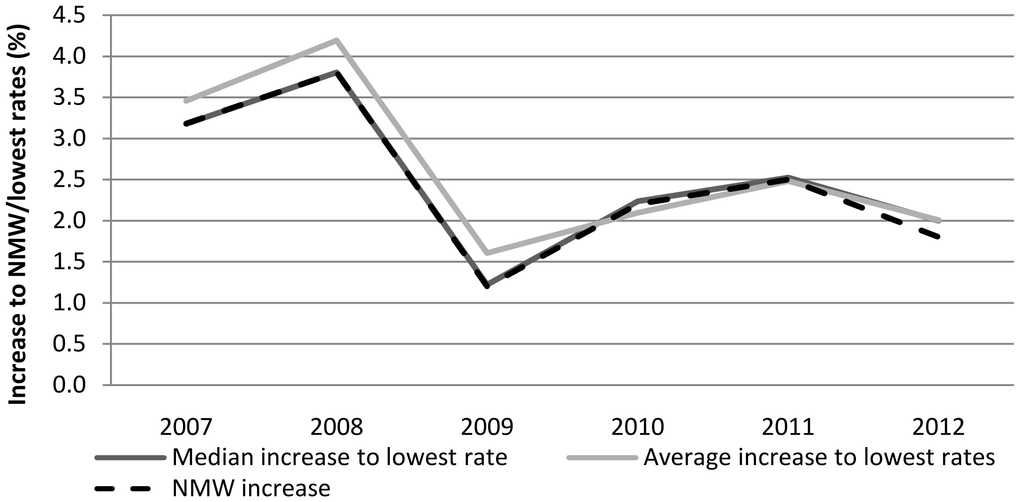


Table 6 Increases to adult pay rates at the bottom end of pay structures, 2007-2012

Organisation	2007	2008	2009	2010	2011	2012
Argos	3.2	3.8	1.2	2.6	2.2	1.8
Asda	3.2	4.1	2.0	1.5	2.5	2.0
B&Q	3.1	-	-	2.3	2.5	1.9
Blackwells	3.2	3.8	1.2	3.4	2.5	1.5
Boots	3.2	3.8	1.0	3.0	3.1	3.0
Clarks	3.9	3.1	2.1	3.1	3.2	2.6
Extracare Charitable Trust	-	6.7	0.0	2.3	2.1	1.5
Greggs	-	5.8	3.0	1.9	2.2	2.8
Halfords	3.6	3.8	1.2	1.9	2.5	1.8
Homebase	3.2	3.8	1.2	3.1	2.5	-
House of Fraser	3.1	3.8	-	1.0	2.2	1.8
KFC	3.2	3.8	1.2	2.2	2.5	1.8
Leonard Cheshire Disability	-	3.8	1.7	1.7	2.5	1.8
Makro	4.2	3.0	0.0	5.6	0.0	1.0
Marks & Spencer	2.9	6.3	2.0	2.5	1.9	2.1
Marston's	-	-	-	2.2	2.5	3.2
McDonald's	3.7	3.6	1.2	2.2	2.5	1.6
Mitchells & Butlers	3.1	3.7	1.2	0.5	2.5	1.8
Morrisons	3.0	7.9	2.0	2.3	2.6	2.2
Mothercare	-	3.1	0.0	2.0	2.0	2.1
Next	4.1	2.9	1.2	2.2	2.5	2.1
Peacocks	3.6	2.6	1.2	2.0	2.0	-
Pret A Manger	3.6	7.9	0.0	-2.4*	3.3	2.4
Retail Co-operative Societies	-	4.3	2.1	2.2	2.6	2.6
Sainsbury's	5.6	3.8	2.5	2.2	2.7	2.4
Schuh	3.0	3.1	3.0	3.0	2.9	3.0
Tesco	4.0	3.8	2.4	2.3	2.8	2.0
Waitrose	3.7	3.2	3.1	2.0	4.8	1.4
Waterstone's	2.5	5.0	2.0	0.0	-	-
Wilkinson	3.1	3.2	3.6	2.0	1.9	0.0
Median	**3.2**	**3.8**	**1.2**	**2.2**	**2.5**	**2.0**
Average	**3.5**	**4.2**	**1.6**	**2.1**	**2.5**	**2.0**
NMW increase	**3.2**	**3.8**	**1.2**	**2.2**	**2.5**	**1.8**

Cells marked '-' indicate no data available
*The starter rate was reduced following the pay review in 2010 from £6.15 an hour to £6.00 an hour.

A comparison of increases applied to the lowest pay rate (table 6) and the headline pay settlement for each organisation (table 7) shows many firms applying larger increases to the lowest rate than to the pay rates for colleagues higher up the pay structure. For example, Argos applied larger increases to the lowest pay rate each year between 2007 and 2012 than for the rest of the organisation, including raising the lowest rate when other rates were covered by a pay freeze in 2009 and 2010. Other similar examples include Blackwells and Homebase, which have both frozen other rates since 2009.

Most examples in the table below show larger increases being applied to the lowest pay rate, followed by organisations applying the same increase across the board. In contrast there are a handful of examples where the increase applied to the lowest rate was lower than the headline pay settlement, for example Halfords paid a general pay increase of 1.5 per cent in October 2009 but with increases of 1.2 per cent for those on the lowest rate.

Table 7 Headline pay settlement, 2007-2012

Organisation	2007	2008	2009	2010	2011	2012
Argos	2.4	3.5	0	0	1.5	0.5
Asda	3.0	2.5 (+1.5)	2.0	2.0	2.1	2.0
B&Q	3.2	-	-	2.25	2.5	2.0
Blackwells	3.0	3.1	0	0	0	0
Boots	3.0	3.0	1.0*	2.0	2.0	2.75
Clarks	2.5	3.0	2.0	3.0	3.0	2.5
Extracare Charitable Trust	4.0	3.5	0	2.25	2.1	1.5
Greggs	3.9	5.8	3.0	2.0	2.2	2.75
Halfords	3.5 (2+2)	3.0	1.5	deferred	2.0	2.0
Homebase	2.6	2.6	0	0	0	-
House of Fraser	2.5	2.5	-	1.0	0	0
KFC	-	3.3	0.8	1.0	0.52	1.15
Leonard Cheshire Disability	2.5	2.0	1.75	0.5	0	0
Makro	4.3	3.0	0	5.7	0	1.0
Marks & Spencer	2.7	3.5	2.0	2.5	2.0	2.0
Marston’s	4.7	3.8	1.5	2.6	3.0	+11pph
McDonald's	-	3.0	2.5	2.5	2.75	2.75
Mitchells & Butlers	2.18	2.79	-	2.1	1.98	1.8
Morrisons	3.0	4.2	2.0	2.3	2.5	+14pph
Mothercare	3.0	3.0	0	2.0	2.0	2.0
Next	4.0	2.5	1.0	1+1.2	2.5	2.0
Peacocks	3.0	2.2	1.2	2.0	2.0	-
Pret A Manger	3.7	-	2.3	0	1.92	2.46
Retail Co-operative Societies	-	4.25	2.0	2.25	2.5	2.5
Sainsbury's	3+2.5	3.8	2.5	2.3	2.7	2.5
Schuh	3.0	3.0	3.0	3.0	3.0	3.0
Tesco	4.0	3.8	2.5	2.3	2.5	2.0
Waitrose	5.0	3.7	3.1	2.5	2.5	2.5
Waterstone's	2.5	3.0	2.0	0	-	-
Wilkinson	3.1	3.2	3.6	2.0	2.0	0

Cells marked ‘-‘ indicate no data available
*Pay rates for under-18s were increased by 10%.

A broader look at pay settlements in the low-paying sectors compared to the rest of the economy during the recession shows median settlement levels lagging behind the whole economy, the private sector and private services more generally. This is linked in part to a higher incidence of pay freezes in the low-paying sectors, driven by freezes in non-food retail and care homes, compared to the rest of the private sector. Although it is important to note that often pay freezes in these sectors do not cover the lowest paid staff, as shown previously. In other cases firms have taken the minimum wage uplift as their pay increase figure and these have been more modest in recent years.

Table 8 Median pay settlement by sector, 2007-2012

Year	Median pay settlement (%)			
	Low-paying sectors	Private sector	Private services	Whole economy
2007	3.0	3.5	3.5	3.5
2008	3.0	3.7	3.5	3.5
2009	2.0	2.0	2.0	2.0
2010	2.0	2.0	2.0	2.0
2011	2.1	2.7	2.5	2.5
2012	2.0	2.8	2.5	2.5

Table 9 Proportion of pay freezes by sector, 2007-2012

Year	Proportion of pay freezes (%)			
	Low-paying sectors	Private sector	Private services	Whole economy
2007	0.5	3.8	0.6	0.7
2008	-	1.8	1.8	1.4
2009	24	37	33.0	31.6
2010	22	17.5	13.7	22.6
2011	15	6.5	8.2	16.0
2012	13	8.0	7.6	12.6

2.2 Company differentials

A small number of organisations froze pay rates altogether between 2007 and 2012, while others have taken advantage of lower minimum wage rises to increase differentials. Table 10 tracks the differential between the established adult rate at the organisations in our panel and the minimum wage between 2007 and 2012. The median differential between the lowest adult rate and the NMW has increased during the recession, from 2.3 per cent in 2007 to 3.1 per cent in 2012. But neither the year-on-year changes in differentials at individual firms, nor the year-on-year changes in the median differential, have been uniform.

Table 10 Company-specific differentials between the main lowest rate of pay and the NMW, 2007-2012

Organisation	2007	2008	2009	2010	2011	2012	Change between 2007 and 2012
Argos	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Asda	6.5	6.8	7.7	6.9	6.9	7.1	0.6
B&Q	1.6	-	-	2.4	2.3	2.4	0.8
Blackwells	0.0	0.0	0.0	1.2	1.2	0.8	0.8
Boots	4.2	4.2	4.0	4.7	5.3	6.5	2.3
Clarks	0.7	0.0	0.9	1.7	2.3	3.1	2.4
Extracare Charitable Trust	18.8	22.2	20.7	20.7	20.2	19.9	1.1
Greggs	4.0	6.0	7.9	7.6	7.2	8.2	4.2
Halfords	0.4	0.3	0.3	0.0	0.0	0.0	-0.4
Homebase	0.0	0.0	0.0	0.8	0.8	-	-0.8
House of Fraser	1.1	1.0	-	0.3	0.0	0.0	-1.1
KFC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leonard Cheshire Disability	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Makro	3.1	2.3	1.0	4.4	1.8	1.0	-2.1
Marks & Spencer	9.1	11.7	12.6	12.8	12.2	12.4	3.3
Marston's	2.7	-	2.6	2.5	2.5	3.9	1.2
McDonald's	0.5	0.3	0.3	0.3	0.3	0.2	-0.3
Mitchells & Butlers	1.8	1.7	1.7	0.0	0.0	0.0	-1.8
Morrison's	0.7	4.7	5.5	5.6	5.6	6.0	5.3
Mothercare	5.6	4.9	3.6	3.4	2.8	3.1	-2.5
Next	0.9	0.0	0.0	0.0	0.0	0.3	-0.6
Peacocks	3.3	2.1	2.1	1.9	1.3	-	-2.0
Pret A Manger	3.3	7.3	6.0	1.2	2.0	2.6	-0.7
Retail Co-operative Societies	1.4	1.9	2.8	2.7	2.8	3.6	2.2
Sainsbury's	6.2	6.1	7.4	7.4	7.6	8.2	2.0
Schuh	6.9	6.1	7.9	8.8	9.2	10.5	3.6
Tesco	13.4	13.4	14.8	14.8	15.1	15.3	1.9
Waitrose	1.4	0.9	2.8	2.5	4.8	4.4	3.0
Waterstone's	4.5	5.8	6.6	4.2	-	-	-0.3
Wilkinson	2.7	2.1	4.5	4.2	3.6	1.8	-0.9
Median	**2.3**	**2.1**	**2.8**	**2.5**	**2.3**	**3.1**	**0.7**
Average	**3.5**	**4.0**	**4.4**	**4.1**	**4.1**	**4.5**	**0.8**

Cells marked '-' indicate no data available
Note: The medians and averages calculated relate to median and average of the figures in the column above.

At three firms, Halfords, House of Fraser and Mitchells & Butlers, the gap between the minimum wage and the lowest rate has been eroded altogether during the period, while one company, Blackwell's, which paid the minimum wage in 2007, has been able to maintain a small lead over the minimum wage since 2010.

Other notable changes in differentials have taken place at Morrisons, Greggs, Schuh and Marks & Spencer, all of which increased differentials by 3 percentage points or more between 2007 and 2012. The largest reductions in differentials over the period have taken place at Mothercare, Peacocks and Makro, with differentials at all three falling by more than 2 percentage points.

Another way of looking at the impact of recession on differentials is to see how many organisations in our sample have increased, decreased or maintained the gap between the lowest rate and the minimum wage in each year since 2007. Data shows that overall half of the sampled firms increased the gap over the minimum wage, around a third saw the gap reduce and at a sixth of firms the gap stayed the same between 2007 and 2012. However, there has been a mixed picture by year with differentials narrowing during recession, with more organisations taking decisions on pay which resulted in a narrowing of the differential over the NMW, but being restored again during recovery.

The analysis also shows that in 2012 more organisations were able to widen the gap between their lowest rate and the minimum wage than previously, and fewer organisations made changes that resulted in a narrowing of the differential between their lowest rate and the minimum wage. A more cautious increase in the minimum wage of 1.8 per cent in 2012 enabled some employers to award higher rises to pay rates, typically of 2 per cent.

Table 11 Annual movements in company differential over the NMW, 2007-2012

	Number of organisations			
Year	**Widened**	**Narrowed**	**Unchanged**	**Count**
2008	8	13	7	28
2009	13	5	9	27
2010	8	13	6	27
2011	6	10	11	27
2012	15	6	6	27

Note: Differential refers to the gap between the main lowest rate of pay and the adult NMW.

2.3 Trends in differentials

This section examines changes in the differential between the minimum wage and the median lowest rate of pay for employees at the bottom end of pay structures in the low-paying sectors[3]. The time period covered is from 2007, before the beginning of the recession, to 2012.

Graph 3 tracks the median and average differential between lowest rates of pay and the minimum wage between 2007 and 2012. Before this period, generally speaking, this differential tended to widen following smaller uplifts in the minimum wage, and to narrow following larger increases in the minimum wage. In the latest period, since the onset of recession in 2008, this pattern has been more unpredictable.

In 2007, the median differential between the lowest rates and the minimum wage stood at 3.3 per cent. By 2012 the differential had decreased slightly, to 3.1 per cent, though the relationship between the NMW rise and the differential varied between these two points. In

[3] Retail, housing & social care and fast food, pubs & restaurants.

2008, the first year of the downturn, the relationship between the NMW uplift and the differential followed the same pattern as it had done previously: in 2008, the NMW rose by more than it had in 2007, and the differential decreased. However, in 2009 the minimum wage was increased by the lowest amount to date of just 1.2 per cent but the differential fell in that year, on the median measure at least, to 2.8 per cent.

Between 2010 and 2012, there remained something of a break from the pattern pre-recession. Minimum wage uplifts in this period were more modest than previously, at 2.2 per cent, 2.5 per cent and 1.8 per cent respectively and, despite rising to 4.4 per cent in 2010, the differential dropped back to 3.0 per cent in 2011, and rose only slightly to 3.1 per cent in 2012.

Graph 3: Differential over the NMW (all sectors), 2007-2012

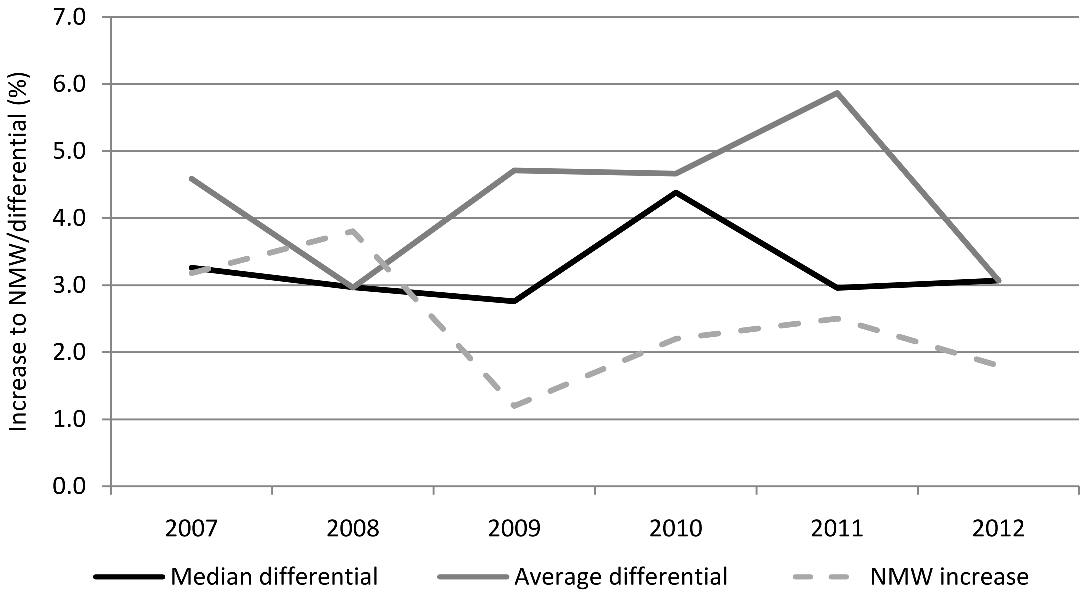


Table 12 Differential between lowest pay rates and the NMW, 2007-2012

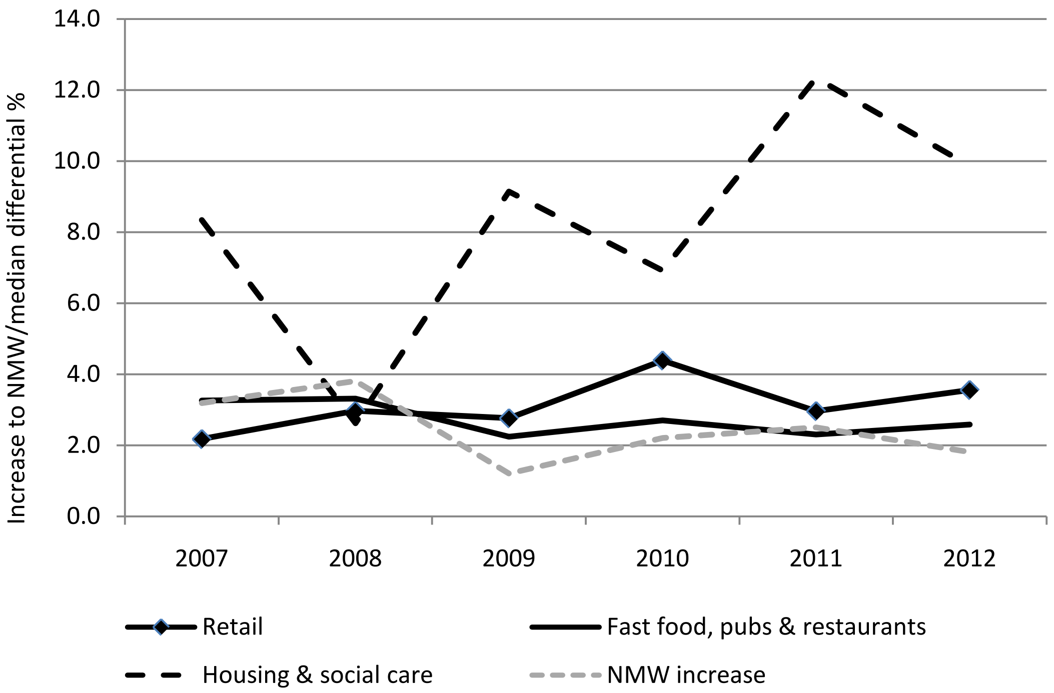
	Median differential %	Average differential %	NMW increase %
2007	3.3	4.6	3.2
2008	3.0	3.0	3.8
2009	2.8	4.7	1.2
2010	4.4	4.7	2.2
2011	3.0	5.9	2.5
2012	3.1	3.1	1.8

2.4 Sector differences

The relationship between uplifts in the minimum wage and differentials has historically followed slightly different patterns in each of the low-paying sectors. Differentials in the housing and social care sector have been more significant than those in retail, and those in retail larger than those in fast food, pubs and restaurants. In the latest period, differentials have widened slightly during recession in retail and care homes and narrowed marginally in fast food, pubs and restaurants.

The differential in the retail sector narrowed significantly early on following the largest increase to the minimum wage of 10.8 per cent in 2001, fluctuated in reaction to varying increases in the minimum wage between 2001 and 2007 and has widened slightly since the onset of recession in 2008. In fast food, pubs and restaurants the differential between pay rates and the minimum wage has been much smaller than that in the retail sector and as a result has fluctuated less dramatically both pre- and during recession but has continued to narrow, albeit at a slower rate, during recession. Organisations in the housing and social care sector on the other hand have been able to widen the gap between their pay rates and the minimum wage during recession, restoring differentials to levels monitored before the onset of recession.

Graph 4: Median differential over the NMW by sector, 2007-2012



The differential in the retail sector widened slightly over the period of the recession, though the company-specific analysis in section 2.2 shows that this varied from company to company. Overall, the differential in the sector stood at 2.2 per cent in 2007 and had risen to 3.6 per cent by 2012, with fairly minor fluctuations in between. The largest NMW rise in the period, of 3.8 per cent in 2008, had little impact on the differential, and it actually increased slightly in that year.

In fast food, pubs and restaurants, the differential continued to slowly decline over the period. In 2007 the differential stood at 3.3 per cent in fast food, pubs and restaurants, and in 2012 it stood at 2.6 per cent. The differential fell slightly in 2009 to 2.2 per cent, despite the lowest ever NMW rise taking place in this year, and remained only slightly above this level during the period of low uplifts that followed.

The differential in the housing and social care sector fluctuated significantly during recession, falling from 8.3 per cent in 2007 to a low point of 2.6 per cent in 2008, only to widen again in 2009 to 9.1 per cent. The differential in 2012 stood at 9.9 per cent, back to levels monitored prior to the onset of recession. Pay freezes were more common in this sector than they were elsewhere and, because differentials had been maintained before the onset of recession, some organisations were able to comply with the statutory minimum despite a freeze on pay for one or more consecutive years.

Table 13 Differential between lowest pay rates and the NMW (by sector), 2007-2012

	Median differential %			
	Retail	Fast food, pubs & restaurants	Housing & social care	NMW increase %
2007	2.2	3.3	8.3	3.2
2008	3.0	3.3	2.6	3.8
2009	2.8	2.2	9.1	1.2
2010	4.4	2.7	6.9	2.2
2011	3.0	2.3	12.3	2.5
2012	3.6	2.6	9.9	1.8

3 Premium pay

In this section of the report we examine the use of pay premiums and look at how the treatment of, and associated premiums for, unsocial hours working has changed in the period since the onset of recession.

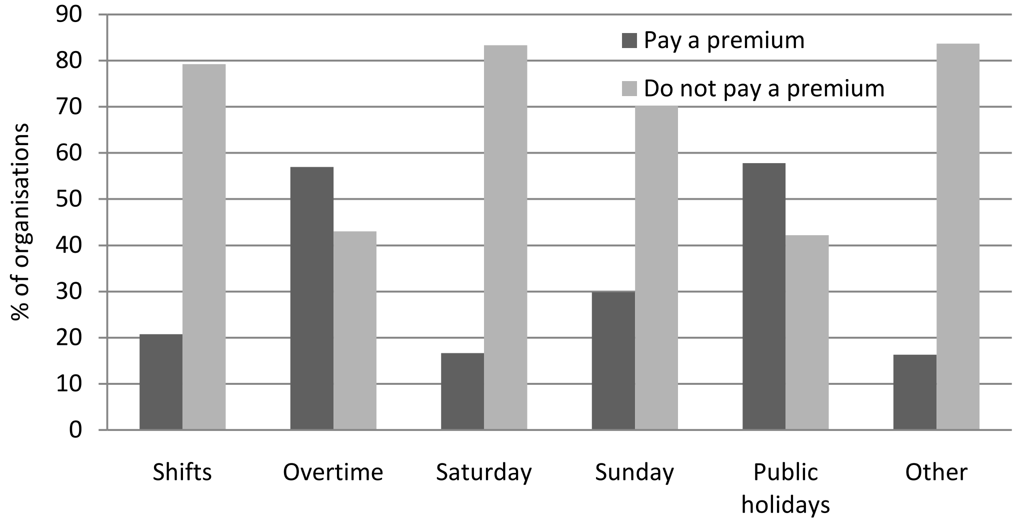
Key points

- The majority of low-paying sector employers pay low-paid staff premiums for working overtime, although there were variations by sector with around a third of care homes paying an overtime premium compared to three-quarters of retailers.
- In contrast, only around a fifth of employers operate shift pay, however many pay premiums for working unsocial hours, such as weekend and bank holidays.
- Unsocial hours premiums are most commonly paid on bank holidays and least commonly paid on Saturdays, though there has also been a trend away from paying premiums on Sundays. There are also significant variations by sector.
- The trend away from paying premiums on a Sunday emerged before the onset of recession and has continued in the period 2007 to 2012.
- In the retail sector the average bank holiday premium reduced by 35 per cent over the period 2007 to 2012 and the average Sunday premium reduced by 15 per cent.
- Premiums paid for night work in the retail sector have undergone fewer changes but the average premium has nonetheless reduced by 7 per cent since 2007.

3.1 The use of premiums

The employer survey asked about the extent to which low-paid employees are eligible for premium pay, by which we mean an addition to the basic rate either as a fixed amount or a percentage for working particular hours. We collected information on whether or not employers in low-paying sectors currently pay a premium rate for overtime, shift or unsocial hours working to employees who are paid less than £6.50 an hour. The results show that overtime and bank/public holiday working most commonly attract premium rates of pay, with almost 60 per cent of respondents reporting paying low-paid staff premiums for working overtime or on public holidays. It is also fairly common practice for employers to pay a premium rate of pay for working on Sunday, at around a third of employers, although we have monitored a trend away from paying premiums on a Sunday (see section 3.4).

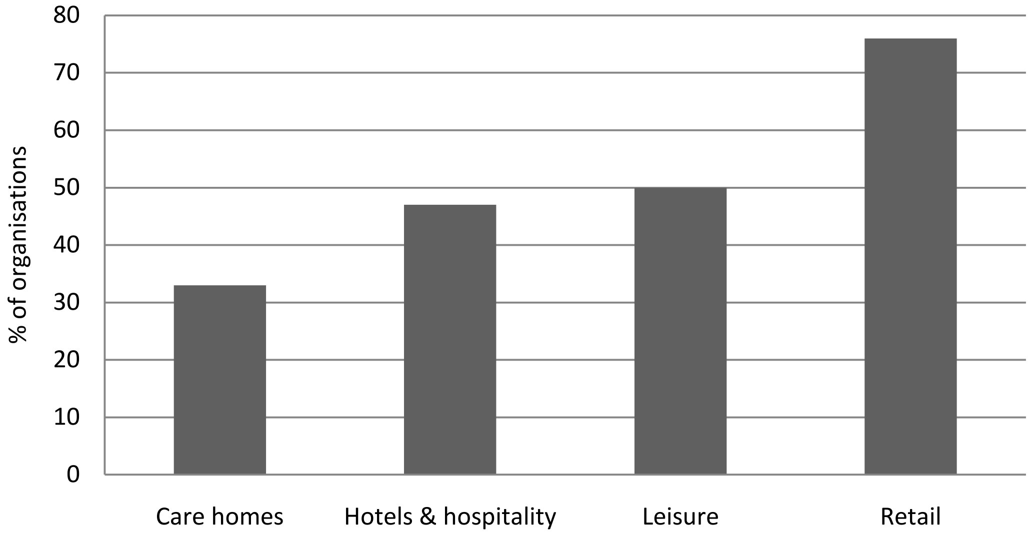
Graph 5: Proportion of organisations that pay employees earning less than £6.50 an hour pay premiums, 2013



Note: The survey did not ask if firms operated shift-working therefore it is not possible to know whether the proportion that pay a premium for shift work represents all of those with shift-working or not.

Some 58 per cent of employers report that employees paid less than £6.50 an hour are eligible for a premium rate of pay for working overtime. There were significant variations by sector, with care homes least likely to pay low-paid staff a premium for working overtime and retailers the most likely. Overall a third of care homes, half of leisure, half of hotel and hospitality firms and three-quarters of retailers pay overtime premiums.

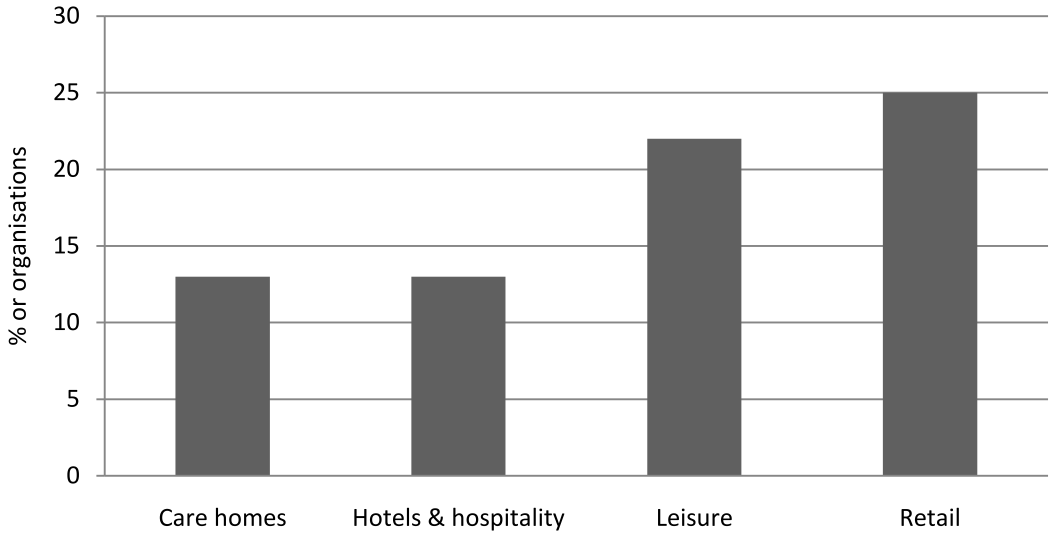
Graph 6: Proportion of organisations paying a premium for overtime working by sector, 2013



Just 21 per cent of employers reported that staff earning under £6.50 an hour are eligible for shift-based premium pay. However, our regular monitoring of pay shows that in many cases employers do pay some form of premium for night, weekend and bank holiday working but these payments are not viewed as shift premiums. This is likely to be explained by a range of factors, including the differences between regular working hours in these sectors compared to the rest of the economy, with evenings and weekends increasingly considered part of the normal working week.

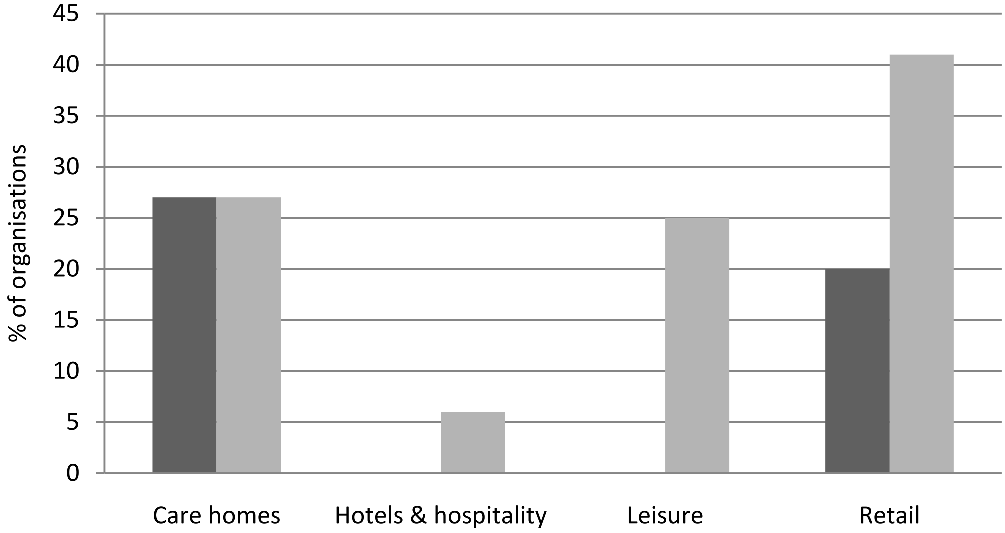
The profile of employees also plays a role, with large numbers of part-time workers and students seeking work that will fit round their studies or family commitments. The survey shows some minor variations by sector, with more employers in the leisure and retail sectors paying shift premiums to low-paid staff compared to employers in the care home and hotels and hospitality sectors.

Graph 7: Proportion of organisations paying a premium for shift working by sector, 2013



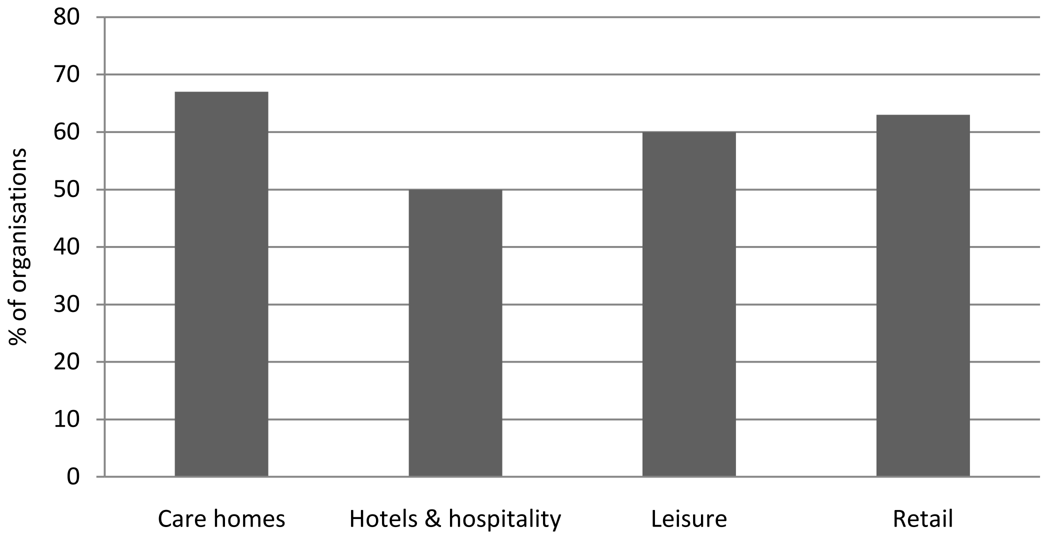
Weekend working is common in low-paying sectors and employers are much more likely to pay a premium for working Sundays than Saturdays, although the patterns by sector vary. Care homes, for example, are equally as likely to pay staff earning £6.50 an hour or less a premium for working on Saturdays or Sundays, whereas leisure firms and retailers are more likely to pay a premium on a Sunday. On the other hand, hotels and hospitality firms are unlikely to pay a premium on either day.

Graph 8: Proportion of organisations paying a premium at weekends by sector, 2013



In respect of public holidays, similar proportions of firms across the different low-paying sectors pay staff a premium. As our regular monitoring shows, increasingly public holiday premiums only apply on designated days, for example Christmas Day and New Year's Day, and three respondents from the hotel and hospitality sector to this survey reported adopting this policy.

Graph 9: Proportion of organisations paying a premium on public holidays by sector, 2013



3.2 Trend away from paying premiums

The survey asked low-paying sector employers if they had made any changes to premiums since the start of the recession. One in eight had made changes, of which over half operate in the retail sector. Two-thirds of those that made changes during the recession made reductions to premium payments, either by reducing the premium itself, or reducing the hours or days when premiums apply.

IDS monitoring has shown a trend towards the reduction or removal of premiums for Sunday and bank holiday working long before the onset of the recent recession, particularly in the retail sector. Key legislative changes on Sunday trading and minimum statutory holiday entitlements have had an impact. The Sunday Trading Act 1994 gave shops the right to trade on a Sunday, since then we have seen a steady move away from paying Sunday premiums to retail employees. Increases to minimum statutory holiday entitlement from 4 to 4.8 weeks in October 2007 and to 5.6 weeks in April 2009 led to reductions in premiums for working on public holidays.

Typically employers reduce and then remove premiums for Sundays but changes have tended to apply to new starters only, with all premiums remaining intact for employees who commenced employment before the date of the change. Recently it has become common practice for employers to remove Sunday premiums entirely, having already reduced them some time ago. Premiums for public holidays have also been reduced, typically from double-time to time-and-a half, however employers are less keen to remove them entirely and have either reduced the premium paid or reduced the number of public holidays on which premiums apply.

3.3 Changes in night premiums

Despite a small number of changes at individual companies, our analysis shows that night premiums have been more resilient than premiums for other unsocial hours working. The median level of premium is unchanged over the period. On average, at the retailers in our panel, the premium paid for night working has reduced only slightly from 41 per cent to 38 per cent between 2007 and 2012.

Where retailers have made changes to night premiums in the period since the recession, this has tended to be in the form of a reduction in the level of the premium, rather than a total removal. Reductions in premiums have come about in one of two ways. Either the organisation concerned has made an actual reduction in the level of premium offered, e.g. from T+100 per cent to T+20 per cent, or the company has not increased the value of a flat-rate addition alongside a basic pay rise. So for example a premium of £2 an hour has reduced proportionately in value from 36 per cent to 33 per cent as basic pay has risen.

Table 14 Value of premium paid for night working in the retail sector, 2007-2012

Year	% premium paid in addition to basic pay	
	Average	Median
2007	41	33
2008	41	33
2009	38	33
2010	38	33
2011	38	33
2012	38	33

Note: Averages and medians are the average or median premium across all retailers in the panel for a given year.

IDS has monitored a number of examples which are useful in highlighting the ways in which night premiums have been reduced. B&Q and Homebase both pay a flat-rate premium for night work, which are worth £1.50 an hour between 10pm and 5am at B&Q and £2 an hour between 11pm and 5am at Homebase. The level of premium has remained unchanged between 2007 and 2012 and the value of the premium relative to basic pay has reduced. At Boots the premium for night work has been reduced from T+50 per cent to T+20 per cent from 2009. Another approach involves changes to the time window during which premiums apply. For example at Argos the 'out of hours' window was reduced from 9pm-8am to 10pm-6am in 2012.

3.4 Changes to Sunday premiums

The trend to reduce or remove Sunday premiums which began in the early 1990s continued in the period since the beginning of the recession. The average premium at retailers in our panel fell from 44 per cent to 29 per cent between 2007 and 2012, while the median reduced from 50 per cent to 42 per cent.

Over the longer term, a key trend has been for a gradual reduction, followed by the total removal, of the premium paid for Sunday working, and several retailers have completed this process in the period since 2007. However some retailers have retained premiums for working Sundays.

Table 15 Value of premium paid for Sunday working in the retail sector, 2007-2012

Year	% premium paid in addition to basic pay	
	Average	Median
2007	44	50
2008	44	50
2009	39	50
2010	39	50
2011	29	42
2012	29	42

Note: Averages and medians are the average or median premium across all retailers in the panel for a given year.

There are a range of examples from IDS monitoring which help to give a fuller picture of the situation regarding Sunday premiums. For example, Retail Co-operative Societies continues to pay a premium of double time (100 per cent) for Sunday working. Marks and Spencer, Boots and Argos removed their Sunday premium during the period since the onset of recession in 2011, 2009 and 2010 respectively. At Argos this took effect from 2011, at Marks & Spencer the premium was removed in 2010, having already been reduced from 100 per cent to 50 per cent in 2003. At Boots the premium was reduced from 100 per cent to 50 per cent in 2002 and removed completely in 2009.

Some firms had already removed Sunday premiums before 2007 since the trend emerged during the 1990s following the relaxation of Sunday trading laws and many now pay Sundays at single time or basic pay. Sainsbury's is an example of a retailer that removed the premium for Sunday working before the recession, doing this from 2007.

3.5 Bank holiday premiums

Employers have made changes to the premiums paid for bank holiday working since the start of the recession, but to a lesser extent than is the case for Sunday working. Our analysis shows that the average premium fell from 99 per cent to 84 per cent between 2007 and 2012, while at the median the premium reduced from 75 per cent to 50 per cent.

Much of the movement in the level of bank holiday premiums happened in the period prior to the recession, when many retailers reduced the premiums paid for bank holiday working. The total removal of bank holiday premiums has been less common than has been the case for Sunday premiums, though a small number of organisations, including Boots and Next, have taken this step in the latest period. Morrisons is an example of a retailer that made changes to bank holiday premiums long before the recent recession, consolidating the premium into basic pay in 1988. Screwfix provides an example of a retailer increasing premium pay for bank holidays, doubling the level of the premium between 2011 and 2012. The level of the premium at Homebase was maintained at £2.57 an hour between 2007 and 2011. However its value relative to basic pay has reduced over that period, from 46.6 per cent to 41.9 per cent.

Table 16 Value of premium paid for public holiday working in the retail sector, 2007-2012

	% premium paid in addition to basic pay	
Year	Average	Median
2007	99	75
2008	94	75
2009	89	75
2010	84	50
2011	84	50
2012	84	50

Note: Averages and medians are the average or median premium across all retailers in the panel for a given year.

4 Age-related pay

This section of the report examines the use of age-related pay rates for young workers, as well as changes in the use and structure of age-related pay following the onset of recession and the reduction in the age at which the adult statutory minimum wage applies. Age-related pay is defined as different rates of pay for workers of different ages in the same job. It does not cover apprentices.

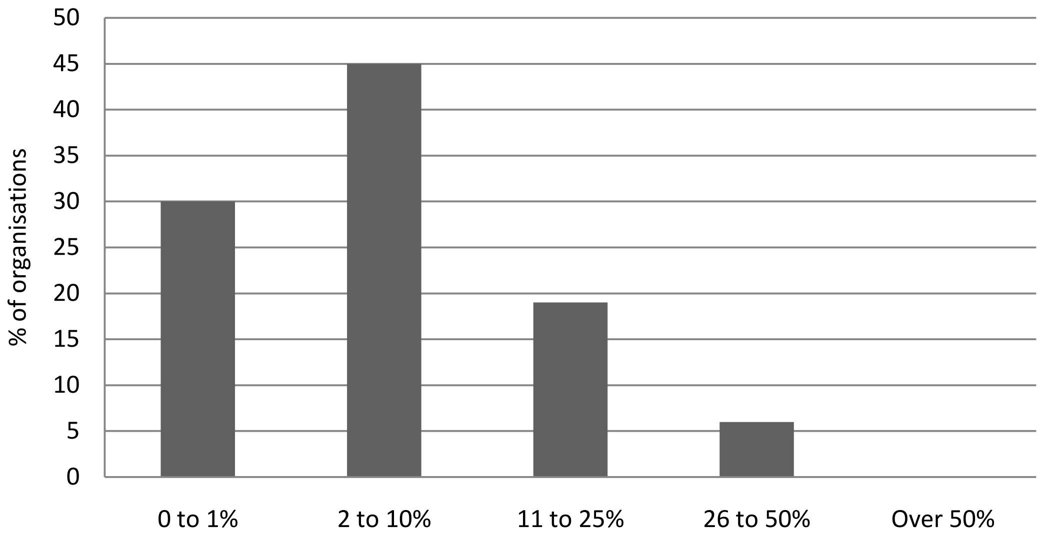
Key points

- Young workers typically make up less than 10 per cent of an organisation's workforce, although larger proportions are more common in the retail and hotel and hospitality sectors.
- The use of age-specific pay rates varies by sector and is more common in hospitality and retail than in care homes.
- Most organisations pay adult rates from age 16, although a quarter of respondents have age-related pay rates.
- Typically, where age-related pay operates, the rate paid to workers aged 16 and 17 is worth 80 per cent of the rate paid to those aged 18 to 20 and that paid to 18 to 20 year-olds is worth 81 per cent of the adult rate.
- The gap between company rates paid to young workers and the statutory minimum is significantly wider for 16 and 17 year-olds, than for older workers.
- There has been a significant move away from age-related pay at the major supermarkets, with all either removing or increasing age-related rates between 2007 and 2012. Age discrimination laws may have played a part in this.
- There has been a convergence in the age at which adult rates are paid to either 16, 18 or 21, rather than at various ages between 16 and 21.
- The freeze on the NMW youth and development rates looks to have fed through to some organisations' decisions on pay, with a number of businesses freezing youth rates altogether in 2012.

4.1 Young workers

Our survey of low-paying employers covered their use of age-related pay. Employers were asked what proportion of their employees are under 21 years old. Respondents were most likely to say between 2 and 10 per cent. However substantial proportions said that young workers under 21 made up less than 1 per cent of the workforce and between 11 and 25 per cent of the workforce at almost a third and a fifth respectively.

Graph 10: Proportion of workforce aged under 21, 2013



There were variations by sector with care homes least likely to have large proportions of young workers on the one hand, and all of those reporting proportions of between 26 and 50 per cent of the workforce being large employers from the retail and hotel and hospitality sectors. No employer said that more than 50 per cent of their workforce is aged under 21.

Table 17 Proportion of workforce aged under 21 by sector, 2013

	Number of organisations				
	Care homes	Hotels & hospitality	Leisure	Retail	All organisations
0 to 1%	10	2	3	9	33
2 to 10%	13	6	6	18	49
11 to 25%	1	8	5	5	21
26 to 50%	0	2	0	4	6
Over 50%	0	0	0	0	0
TOTAL	24	18	14	36	109

Note: The figures for all organisations include respondents in the 'other' sector category.

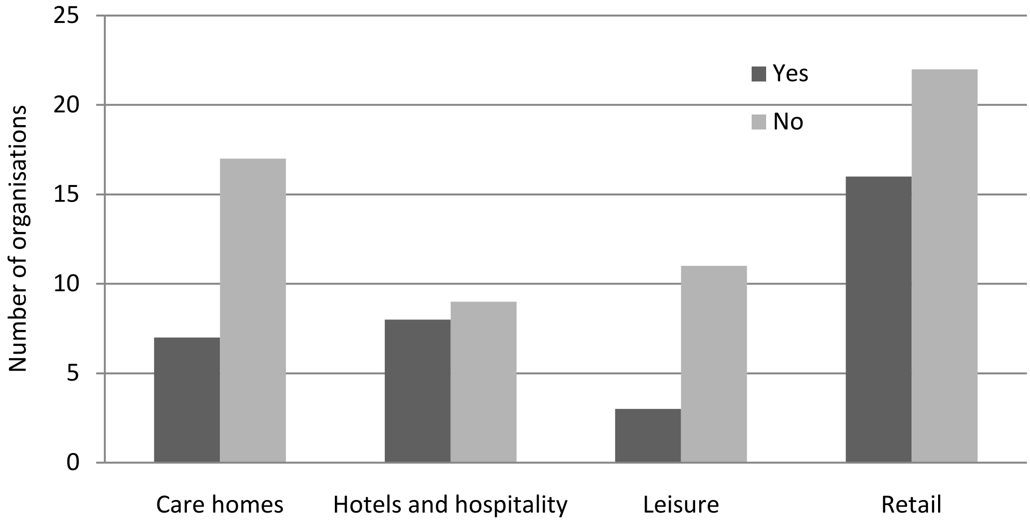
4.2 Use of age-related pay

Around a third of survey respondents (32 per cent) have age-related pay rates, although there were noticeable variations by sector. The survey indicates that around half of employers in the hotel and hospitality sectors, which includes fast food, pay different rates to younger workers. This is broadly in line with our regular monitoring of pay[4] which shows that around two-thirds of employers in the fast food sub-sector operate age-related pay. Similarly the survey shows approximately 42 per cent of retailers operate age-related pay and the figure from our latest research is 45 per cent[5].

[4] 'Pay and conditions in retail 2013', IDS, 2012.
[5] Ibid.

In care homes the proportion of employers with age-related pay is smaller at around a third. This is linked to the relatively small number of young people employed in care homes. Previous research has shown that the sector tends to attract older workers and the median age of people working in the sector was 40. Survey data for the leisure sector indicates a surprisingly small proportion of employers operating age-related pay; however this is probably due to the small sample and also the type of leisure companies that took part, for example betting and gambling businesses.

Graph 11: Number of organisations with age-related pay rates by sector, 2013



4.3 Structure of age-related pay

The survey shows that the majority of employers pay adult rates from age 16. However, those organisations with separate rates of pay for younger workers typically pay adult rates from either 18 or 21, with 21 being the most common. The proportion of respondents to this year's survey paying adult rates from 16 is 75 per cent, from 18 is 7 per cent and from 21 is 18 per cent. Research undertaken by IDS in 2004[6] on age pay showed an increase in employers paying adult rates from age 18 and 22 (22 was the threshold at which the adult minimum wage applied until October 2010) between 1999 and 2004, rather than from different ages between 17 and 22.

Table 18 Proportion of employers paying adult rates by age, 2013

Age at which adult rate is paid	Proportion of organisations
16	74
17	0
18	7
19	0
20	0
21	18

[6] 'Age-related pay since 1999: A report by Incomes Data Services for the Low Pay Commission', IDS, 2004.

The National Minimum Wage regulations provide separate rates for 16 and 17 year olds, 18 to 20 year olds, and adults aged 21 and over. Previous IDS research has shown that employers make little use of the minimum wage youth and development rates, typically setting their own rates for younger workers where they operate age-related pay. The rates paid to younger workers by firms are typically higher than the NMW rates, particularly for those aged under 18 (see section 4.5). For example, IDS monitoring shows it is not uncommon for employers to pay under 18s rates around the £5 an hour mark, rather than below £4 an hour as the current legislation states.

4.4 Influence of the minimum wage on youth rates

IDS' regular monitoring of larger organisations in the retail and fast food sectors identifies only two organisations that make use of the NMW youth rates. This is supported by data from the survey, particularly among larger employers, with most paying young workers more than the NMW youth rates. However, the survey also shows some smaller employers making use of the NMW age-related rates.

Table 19 Examples of age-related pay rates, 2013 (survey findings)

Sector	Employees	Rate paid to 16 and 17 year-olds £ph	Rate paid to 18 to 20-year olds £ph	Age adult rate paid
Retail	106	4.75-5.30	5.30-6.19	21
Leisure	137	5.63	5.63	21
Retail	174	NMW	5.88	21
Hotels & hospitality	200	4.98-5.05	4.98-5.05	21
Hotels & hospitality	270	5.00	5.00	21
Retail	300	NMW	NMW	21
Care homes	500	NMW	NMW	21
Retail	4,500	NMW	NMW	21
Retail	6,300	4.60-6.28	6.20-7.38	18
Leisure	8,000	3.68	4.98	21
Hotels & hospitality	10,500	4.00 (on entry)	4.98 (on entry)	21
Leisure	13,500	NMW	NMW	21
Hotels & hospitality	30,000	4.50	5.50	21

4.5 Youth pay relativities

Analysis of the gap between company rates paid to young workers and the statutory minimum (table 20) at this same sample of organisations shows a significantly wider gap between the rates paid to 16 and 17 year-olds, than for older workers. The median percentage difference between company rates for 16 and 17 year olds and the statutory youth rate is 32.5 per cent. That for workers aged 18 to 20 is 24.4 per cent and for comparison the gap with the statutory minimum for adults is just 0.2 per cent.

A look at youth rates in relation to each other and in relation to the adult rate (table 21), based on a sample of 14 retailers and hospitality firms, shows that typically the rate paid to workers aged 16 and 17 is worth 80 per cent of the rate paid to those aged 18 to 20, and that paid to 18 to 20 year-olds is most often 100 per cent of the adult rate, since many companies pay adult rates from age 18. Where companies that pay adult rates from age 18 are excluded the rate paid to 19 to 20 year-olds is worth 81 per cent.

Table 20 Gap between company rates and statutory minimums, 2012

Organisation	16/17 rate/NMW (%)	18-20 rate/NMW (%)	21+ rate/NMW (%)
Argos	40.8	24.3	0.0
Boots	44.4	26.0	16.8
C&J Clark	36.7	28.1	3.1
Debenhams	35.3	12.2	0.0
Early Learning Centre	29.6	24.5	0.2
Greggs	50.0	30.5	5.0
KFC	8.7	0.0	0.0
Marston's	0.0	0.0	0.0
McDonald's	18.2	0.4	0.2
Mitchells & Butlers	18.2	0.4	0.2
Mothercare	25.0	24.5	0.2
Poundland	4.3	3.6	1.1
Sainsbury's	36.1	31.3	5.7
Screwfix	47.0	33.3	7.3
Median	**32.5**	**24.4**	**0.2**
Average	**28.2**	**17.1**	**2.8**

Table 21 Relativities of youth rates in relation to each other and adult rates, 2012

Organisation	16/17 £ph	18 to 20 £ph	21+ £ph	16/17 rate as % of 18 to 20 rate	18-20 rate as % of 21+ rate
Argos	5.18	6.19	6.19	84%	100%
Boots	6.01	6.45	6.45	93%	100%
C & J Clarks	5.03	6.38	6.38	79%	100%
Greggs	5.52	6.50	6.50	85%	100%
Screwfix	5.41	6.64	6.64	81%	100%
Poundland	3.84	5.16	6.26	74%	82%
KFC	4.00	4.98	6.19	80%	80%
Marston's	3.68	4.98	6.19	74%	80%
McDonald's	4.35	5.00	6.20	87%	81%
Mitchells & Butlers	4.35	5.00	6.20	87%	81%
Mothercare	4.60	6.20	6.20	74%	100%
Debenhams	4.98	5.59	6.19	89%	90%
Sainsbury's	5.01	6.54	6.54	77%	100%
Early Learning Centre	4.77	6.20	6.20	77%	100%
Median	**4.88**	**6.20**	**6.20**	**81%**	**100%**
Average	**4.77**	**5.84**	**6.31**	**82%**	**92%**

4.6 Changes in the use of age pay

The survey asked employers whether they had increased or decreased their use of age-related pay rates for younger workers in recent years. Overall the majority had made no changes, while seven reported an increase and four a decrease. Changes came about in a variety of ways. A small hotelier said it had reduced under-18 pay to £5.00 an hour from February 2012. A large pub chain told us it had raised the age at which the adult rate applied, from 18 to 21, and a large high-street retailer said it had introduced an 18 to 20 year-old rate. Those that had moved away from age-related pay said they had either removed age-pay altogether or had removed it from most of its businesses.

Our regular monitoring of the retail and hospitality shows significant movement away from paying age-related rates in the period since the recession, particularly during the earlier part and among the major food retailers. A number of supermarkets have removed age-related rates in recent years, starting before the recession with Asda in 2006, followed by Tesco (2010), Waitrose (2010), and the Co-op (2011). Morrisons is now the only supermarket to operate youth pay for all staff and Sainbury's only has it for new starters. In 2011 Morrisons increased youth rates from 82 to 88 per cent of adult rates and Sainsbury's removed separate age-related rate for 'competent' staff in 2011, but kept an age-related starter rate for under 18s. The majority of these changes follow the change in the age at which the adult minimum wage applies from 22 to 21 with effect from 1 October 2010.

However, IDS monitored fewer movements in age pay in 2012 than in previous years. Last year the Commission froze the youth and development rates and this looks to have fed through to company-level decisions on pay. A number of businesses froze youth rates altogether in 2012, including Argos, Poundland, KFC, Mitchells and Butlers and McDonald's. This may be linked to the larger proportions of younger people employed at these firms and the labour markets from which they recruit. In the case of Poundland this was the third consecutive year that the rate paid to employees aged 16 and 17 had been frozen. At McDonald's the pay band minimum for crew aged 18 to 20 has remained at £5.00 an hour since September 2011, when it was increased from £4.94. Meanwhile the band minimum rate for crew aged 16 and 17 has been £4.35 an hour since 2008, when it was increased from £4.25 an hour[7].

This is a continuation of an emerging trend we identified in our 2012 report for the Low Pay Commission, when we reported that a small number of retailers held back youth rates compared to increases in other rates in 2011, telling us that youth rates at their organisation were already 'some way above' the NMW rates for the age groups concerned.

[7] It should be noted that McDonald's operates performance-related pay and employees rated as an 'exceptional performer' or a 'significant performer' at McDonald's received performance awards worth 4.5 and 2.75 per cent respectively in 2012.

5 Non-pay benefits

This chapter looks at the provision of non-wage benefits to low-paid employees and also provides some early insights into the impact of pensions auto-enrolment.

Key points

- Many low-paid staff receive a range of employee benefits. The most common employee benefits on offer to low-paid workers are staff discounts, employer pensions and enhanced paid holidays. Company sick pay is also fairly common.
- There are variations by sector, particularly relating to free meals, staff discounts and medical insurance.
- There are differences in the benefits offered to low-paid employees and higher-paid employees: typically higher grades have a better benefits package, such as private healthcare, larger pension contributions, more holidays or access to salary sacrifice schemes.
- Recruitment and retention featured as the key rationale for providing non-pay benefits, with employers offering benefits as a way of reducing staff turnover. Staff expectation was also a significant factor.
- Many organisations find it difficult to give an accurate figure of the value of non-pay benefits relative to the overall reward package but most said they were worth between 3 and 5 per cent.
- The minimum wage has little influence on benefits provision with nine out of ten employers stating that the minimum wage has not caused them to make any changes to benefit provision.
- The recession has had some impact but not necessarily in the direction to be expected. While a quarter of respondents had made changes to their benefits offering since the start of recession, the majority had made improvements.
- Pensions auto-enrolment typically covers around half of the workforce, of which a small minority are paid below £6.50 an hour.
- Many organisations that had already begun auto-enrolment said it was too early to provide a figure for the impact on paybill or opt-out rates however those that were able to report figures show lower levels than anticipated.

5.1 Provision of non-pay benefits

The employer survey asked respondents which of a number of benefits were offered to employees paid £6.50 an hour or less and the results show that reward packages for many low-paid staff include more than just basic pay and other minimum statutory entitlements. The most common employee benefit offered to low-paid employees are staff discounts (69 per cent), employer pensions (65 per cent) and enhanced paid holiday entitlements (64 per cent). Enhanced company sick pay is also fairly common, with around half of organisations providing this. Free or subsidised meals, life assurance and childcare assistance are offered by around a third of employers and company share schemes by around a sixth. A small proportion offered medical insurance. Other benefits, provided by a handful of organisations, included free uniforms, bonus payments and access to other discounts through flexible benefits.

The picture on benefits remains largely unchanged since 2005 when we last surveyed low-paying sector employers on staff benefits, with staff discounts remaining popular, along with the core benefits of workplace pensions, company sick pay and paid holidays above the statutory level.

The exception is childcare assistance where employers are four times more likely to offer low-paid staff this benefit than they were in 2005. However, it is important to note that the survey did not ask how many low-paid staff took up this benefit and it is likely to be low among low-paid staff since many schemes are operated via salary sacrifice.

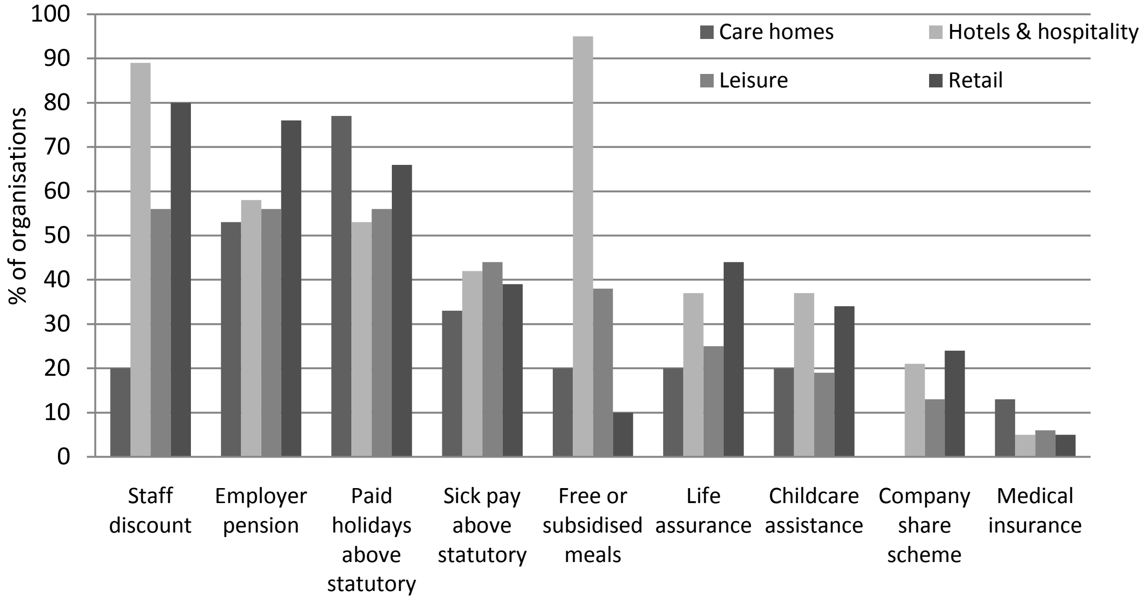
Table 22 Provision of non-pay benefits to low-paid employees, 2013

Employee benefit	% offering in 2013	% offering in 2005
Staff discount	69	58
Employer pension contributions	65	49
Paid holidays above statutory minimum	64	59
Sick pay above statutory minimum	42	54
Free or subsidised meals	39	41
Life assurance	34	30
Childcare assistance	32	8
Company share scheme	18	12
Medical insurance	6	6

There are sector variations in the types of benefits provided to low-paid employees, particularly related to free or subsidised meals and staff discounts. Perhaps unsurprisingly, free or subsidised meals are very popular at hotels and hospitality organisations (95 per cent) but relatively less popular in other sectors. Likewise staff discounts are very popular in hotels and hospitality firms, retail and, to a lesser extent, leisure, but not so common in care homes.

Benefits such as life assurance, childcare assistance and company share schemes are more common in retail, hotels and hospitality firms, although this is most likely linked to the fact that there are a greater number of large employers in this sector who are more likely to offer a wider package of employee benefits. While medical insurance is a fairly uncommon benefit for low-paid employees overall, it is twice as likely to be offered by employers in the care home sector.

Graph 12: Proportion of organisations offering benefits by sector, 2013



Employers also report differences in the benefits offered to low-paid employees and other staff. Overall 26 per cent of organisations said there are differences between the non-pay benefits received by lower-paid employees and higher-paid employees. Typically higher grades receive a better benefits package compared to lower-paid staff, including benefits such as private healthcare, larger pension contributions, more holidays or access to salary sacrifice schemes. By sector, care homes were the least likely to vary benefits by employee group.

5.2 Reasons and value of providing benefits

Employers were asked about the reasons they provide benefits and, in response, said that recruitment and retention was the main rationale. Around half of employers said that staff expectation was another significant driver for their benefit provision. This is up from a sixth of employers who cited staff expectation in our 2005 survey of non-pay benefits. This could be a reflection of growing pressure from staff during a period of rising costs on the one hand and below inflation pay rises on the other.

A handful of organisations provided further details of other reasons for offering benefits. Two stated that their benefit provision was to reward employees and three said that they provided benefits to increase engagement or staff morale. One small nursery employing 24 staff said that they offer nursery fee discounts to employees 'because we feel the fees are high for people earning that little'.

Table 23 Reasons employers offer non-pay benefits

Reason for offering benefits	% of orgs. in 2013	% of orgs. in 2005
To help with recruitment and retention	86	83
Staff expect it	48	17
Improve the value of the paybill	16	16

Many organisations find it difficult to give an accurate figure of the value of non-pay benefits relative to the overall reward package, although the majority of organisations said that benefits were worth between 3 and 5 per cent of the overall reward package. A substantial proportion, around a fifth, valued benefits at 10 per cent or more relative to the overall reward package. A look back at our 2005 non-pay benefits survey shows broadly similar responses, although more employers value the package at between 3 to 5 per cent in 2013 than in 2005 when the largest proportion said between 0 and 2 per cent.

Table 24 Value of non-pay benefits relative to the overall reward package

Value relative to overall reward package	% of orgs. in 2013	% of orgs. in 2005
0 to 2%	29	35
3 to 5%	37	26
6 to 10%	16	20
11 to 15%	8	10
16%+	10	9

5.3 Changes in the provision of employee benefits

The minimum wage has little influence on the provision of non-wage benefits, with an overwhelming nine out of ten employers stating that the minimum wage has not caused them to make any changes to the provision of non-pay benefits in their organisations. All of those who did report a decrease in the level of benefits as a result of the impact of the minimum wage employed over 1,000 employees.

Table 25 Influence of the minimum wage on the provision of non-pay benefits

Influence of the NMW	% of orgs. in 2013	% of orgs. in 2005
Decrease in the level of benefits provision	4	6
Increase in the level of benefits provision	0	7
No change in the level of benefits provision	94	89
Other change	2	2

The survey shows that the recession has had some impact on the provision of benefits, but perhaps not in the direction to be expected. A quarter (26 per cent) of respondents told us they had made changes to benefits on offer for low-paid staff since the start of the recession (June 2008), however in the majority of cases (65 per cent) the change resulted in an improvement in their offering. Some of these changes will be as a result of statutory changes in employer pensions and minimum holiday entitlements but other examples may be an indication of employers offsetting below inflation basic pay rises.

Of those who provided further details of reductions in benefits, reduced sick pay entitlements and changes to pension contributions were cited, as well as a move from free transport to subsidised transportation and a lower sales bonus.

Table 26 Examples of changes to benefits since the start of recession

Main business activity	No. of employees	Reported change
Childcare	24	Now offer staff childcare discount but not due to recession due to large numbers of staff having children
Wholesale	145	Some benefits are better, such as healthcare and pension
Hospitality/hotels	270	Free transport moved to subsidised transport
Retail	600	Commission increase
Gaming	700	Reduction in company sick pay offered per year (although still well ahead of statutory levels)
Retail	2,300	Added life assurance and free uniform
Food manufacturing	2,300	Reduced slightly
Retail	5,293	Sick pay has been withdrawn, pension benefits reduced, holidays reduced due to takeover
Retail	6,300	Introduction of life insurance to all employees, not just those in the pension scheme
Hotel	9,000	Reduced pension contributions
Convenience retail	9,100	Increased pension contributions
Quick service restaurants	10,500	Introduced a discounted online shopping site and auto-enrolment
Hospitality and leisure holidays	13,500	Discounts on holiday and retail spend have increased to 20%
Betting and Gaming	14,030	Matched pension contributions increased from 1-5% to 1-6% of base salary
Hospitality	42,129	All have eligibility to some form of Incentive. Weekly paid team members for example can earn points and from these, select a gift from a catalogue

5.4 Pensions auto-enrolment

The 2012 Government's workplace pension reforms require companies to automatically enrol eligible employees into a workplace pension to help them save for the future. The date for employers to begin auto-enrolment varies according to the size of company and largest employers began doing so from 1 October 2012.

Our survey shows that around a third of respondents (37 of 121), employing a combined workforce of 237,188, had already begun enrolling staff into a qualifying pension scheme covering a total of 85,411 low-paid employees. The survey asked employers how many employees would be affected by auto-enrolment, how many of those affected are paid £6.50 an hour or less, and the opt-out rate among low-paid employees.

Auto-enrolment typically covered half of all employees, of which just a minority are low-paid. The figures for those expected to fall within the scope of auto-enrolment are much higher for employers who have yet to start the process, at around three-fifths. A key reason for this could be employer size since smaller employers are less likely to have a workplace pension already in place and will therefore have more staff covered by auto-enrolment.

Only nine companies were able to provide details on how many low-paid employees had opted-out. Four firms said 4 per cent, one said 1 per cent, two said 2 per cent and two said 10 per cent of their low-paid workforce. Interestingly, the predictions for the level of low-paid employees choosing to opt-out of the pension scheme were much higher than the levels reported by organisations that had already automatically enrolled staff into a workplace pension. Before auto-enrolment began commentators predicted employers could expect opt-out rates of 20 to 30 per cent. However, early indications show that this is likely to be much lower, although low-paid employees would arguably be more likely to opt-out.

Table 27 Proportion of employees affected by auto-enrolment, 2013

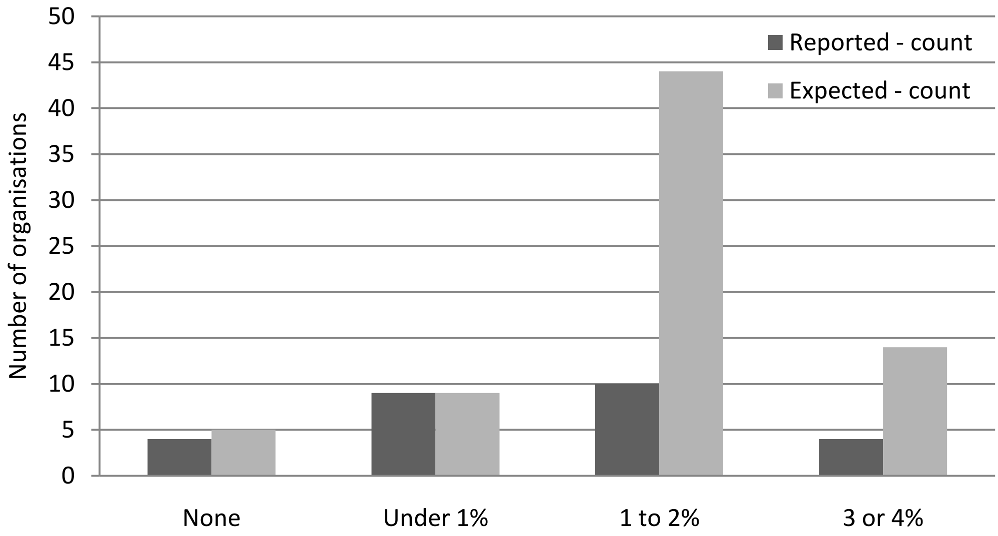
	Median %	Average %
Proportion of employees covered	55	57
Proportion of low-paid employees covered	3	19
Proportion of low-paid opted-out	0*	2*

*Based on 9 responses.

Table 28 Proportion of employees expected to be affected by auto-enrolment, 2013

	Median %	Average %
Proportion of employees expected to be covered	80	69
Proportion of low-paid employees expected to be covered	5	18
Proportion of low-paid expected to opt-out	45	44

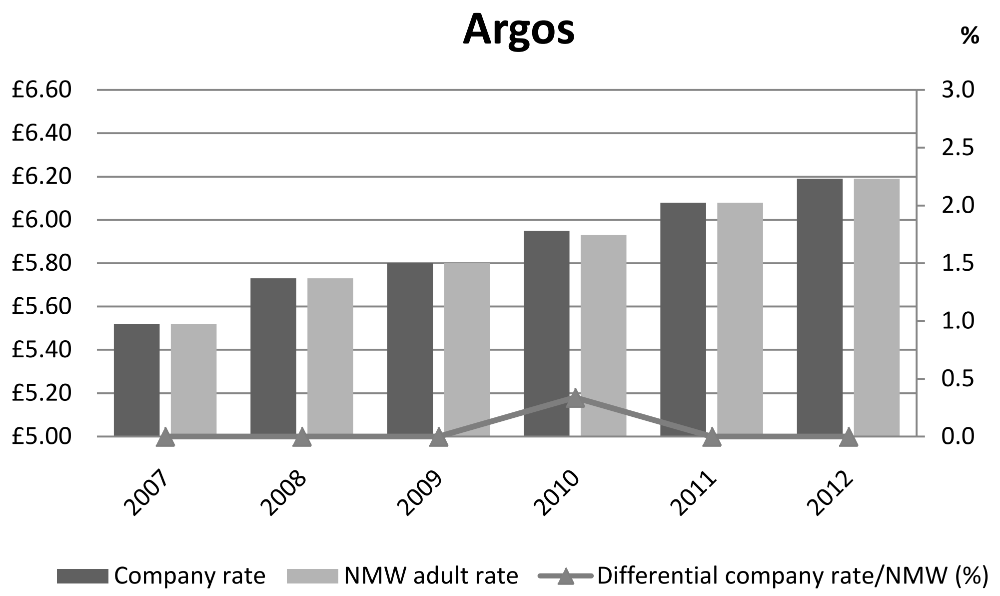
Graph 13: Impact of pensions auto-enrolment on total wage bill, 2013

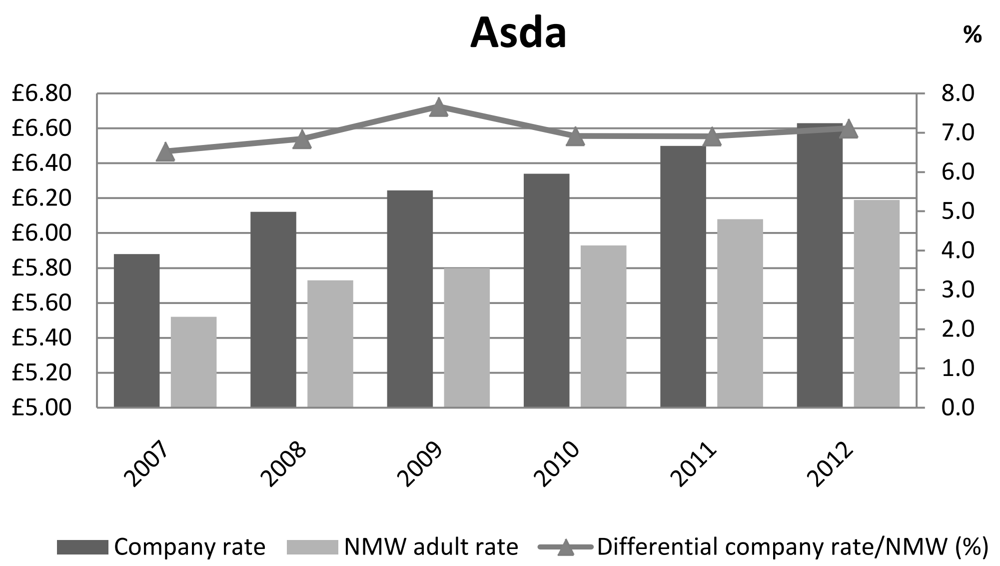


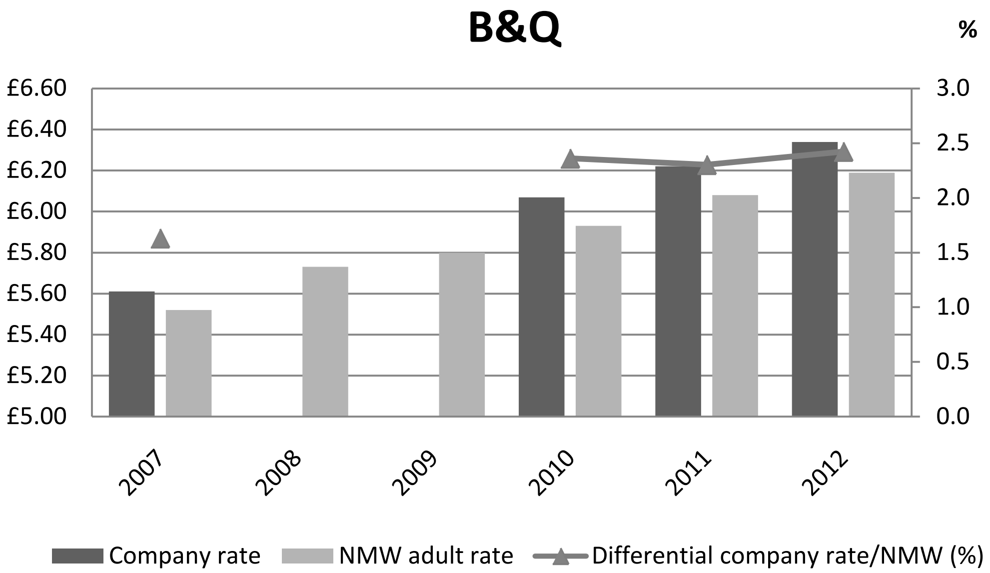
The survey asked employers about the impact of pensions auto-enrolment on the total wage bill and many organisations that had already begun pensions auto-enrolment said that it was too early to provide a figure for the impact on paybill. However, of those that were able to provide a figure, the results show employers were more concerned about the impact on costs than perhaps might be the case. Employers that had not started the process of auto-enrolment expected it to add a further 1 to 2 per cent or even 3 to 4 per cent to the wage bill, while those that had already enrolled staff into a workplace pension saw costs of either under 1 per cent or between 1 and 2 per cent on paybill. There are likely to be additional costs for those firms introducing a pension scheme for the first time.

Appendix 1 – Charts

The charts over the following pages track changes in the rate paid to staff at the bottom end of the pay structure and the difference between this rate and the adult National Minimum Wage between 2007 and 2012 at a panel of organisations in the low-paying sectors. This information has been collected by IDS researchers through surveys, semi-structured interviews and company visits over several years.



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%
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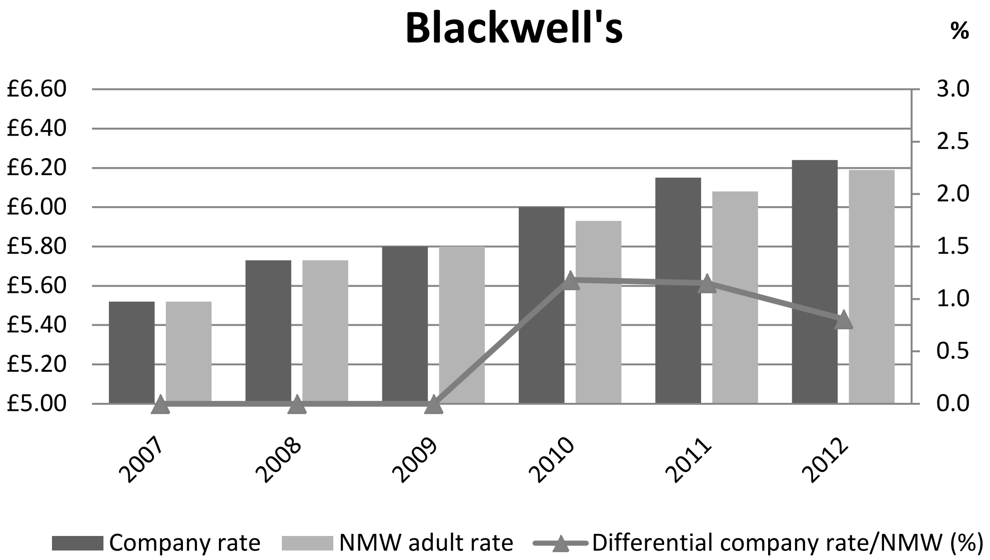
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
3.0
2.5
2.0
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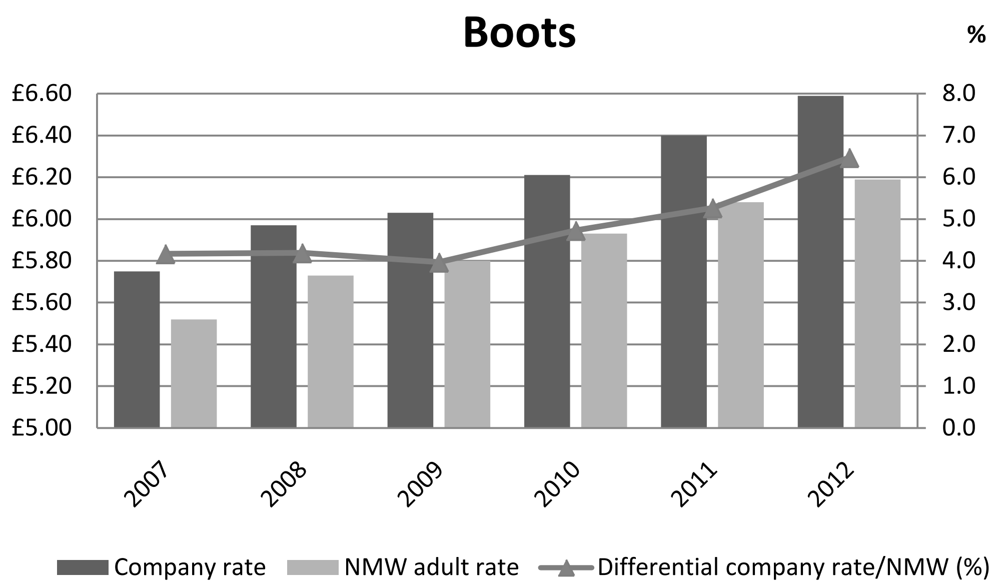
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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7.0
6.0
5.0
4.0
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1.0
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2007
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2009
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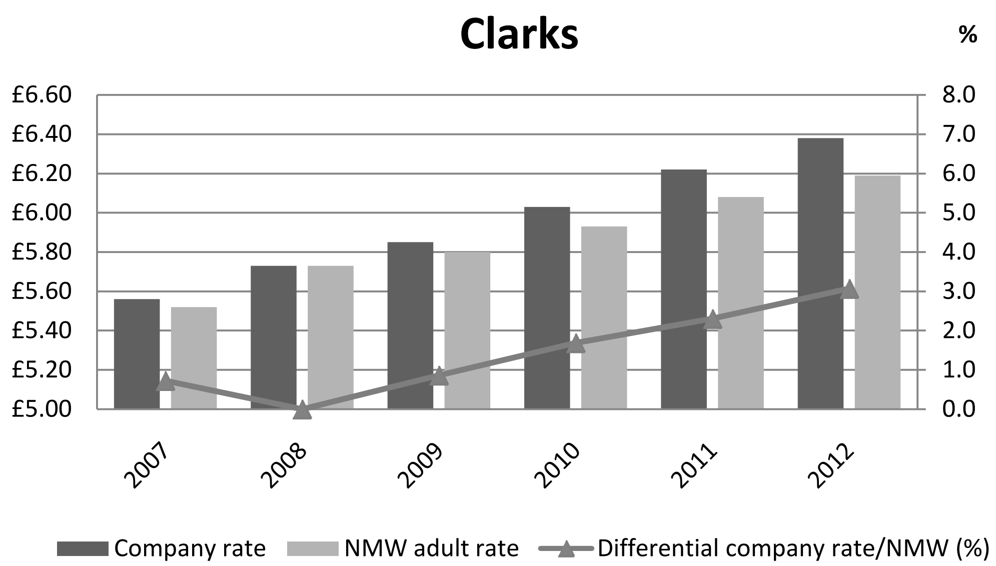
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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£5.00
8.0
7.0
6.0
5.0
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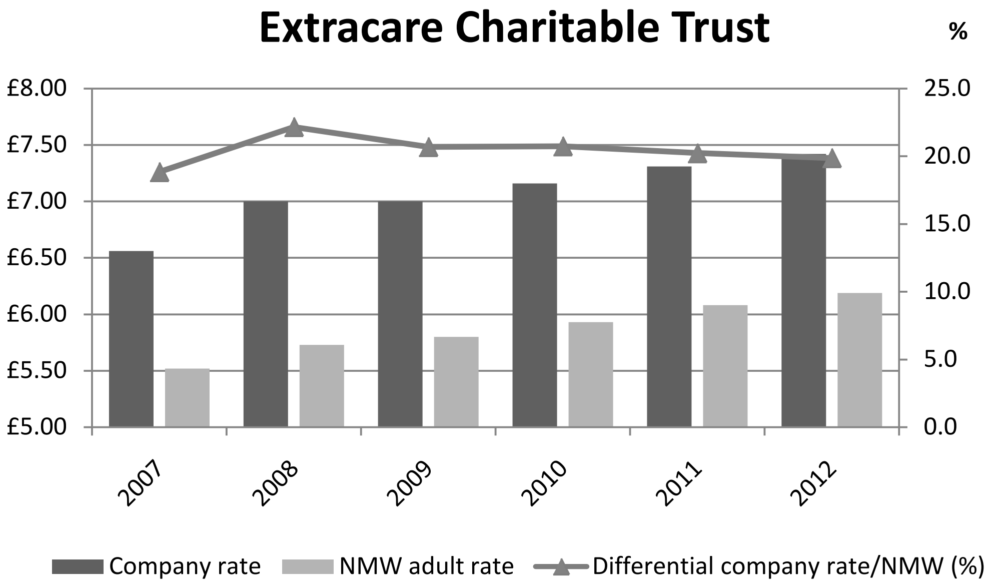
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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£6.00
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£5.00
25.0
20.0
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2007
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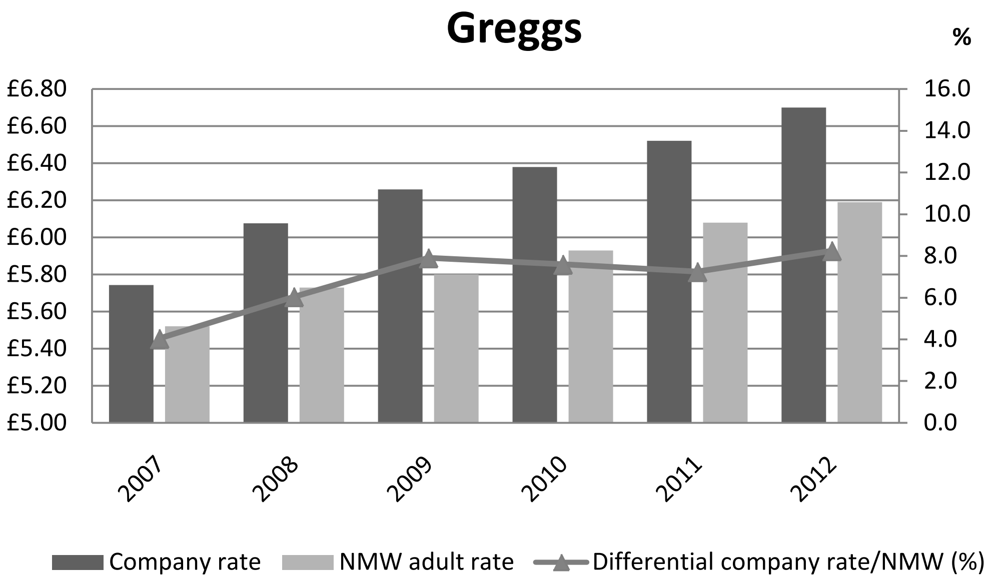
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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£6.00
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£5.60
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£5.00
16.0
14.0
12.0
10.0
8.0
6.0
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2007
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2009
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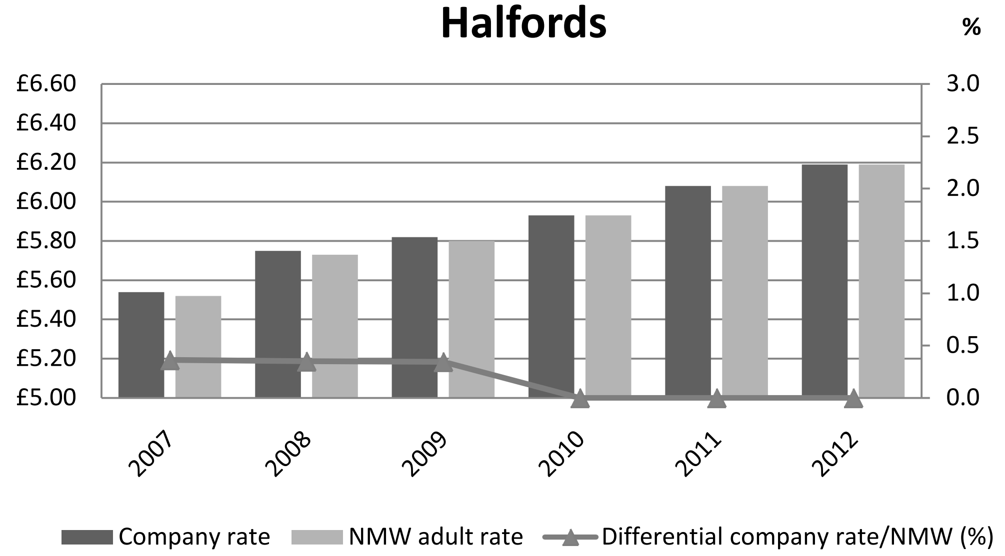
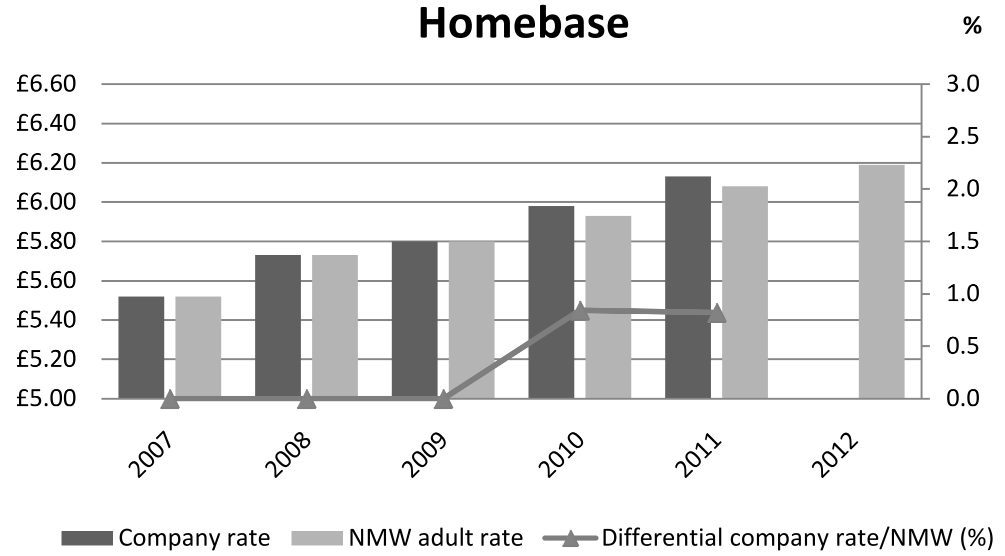
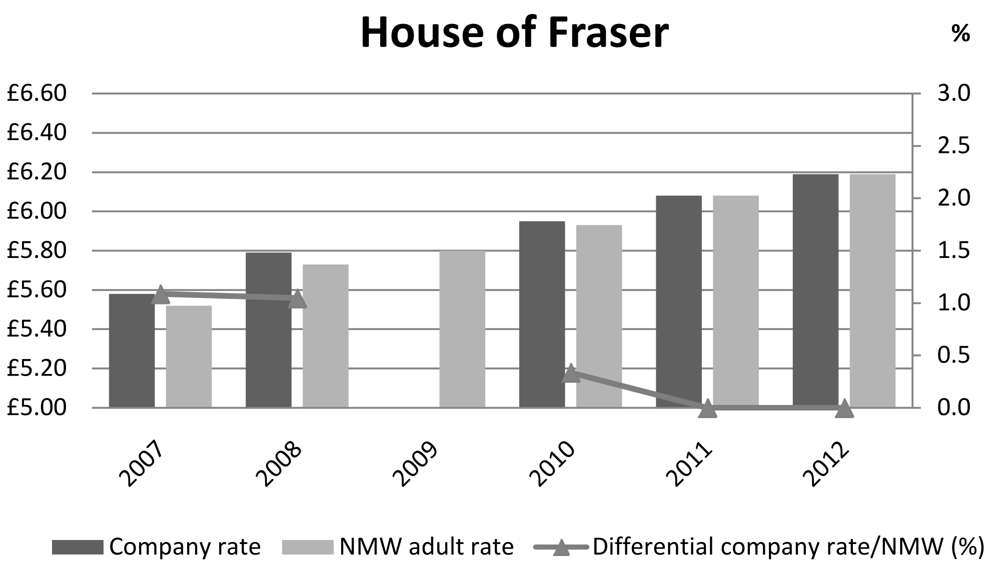
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)

Halfords



Homebase

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3.0
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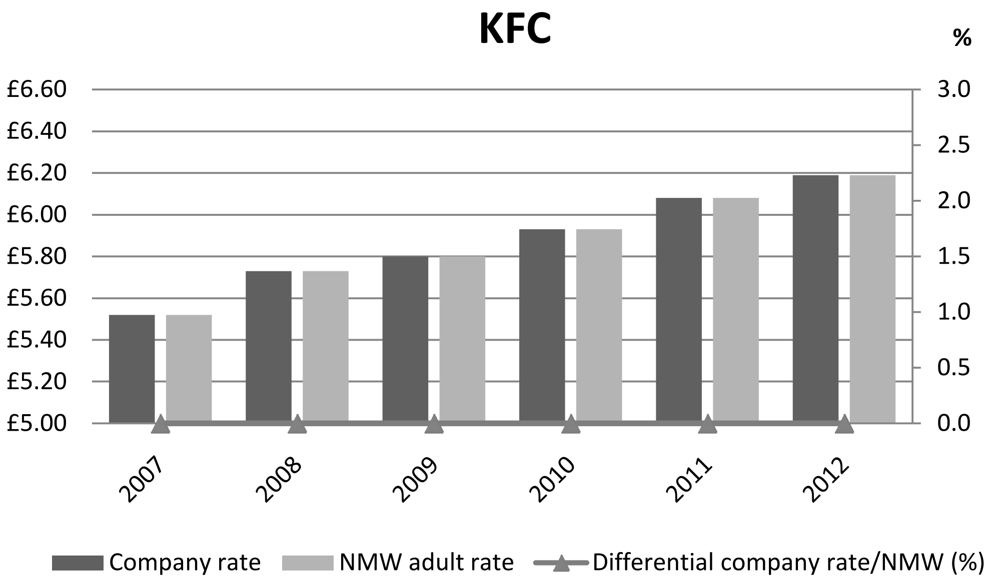
Company rate
NMW adult rate
Differential company rate/NMW (%)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£5.00
3.0
2.5
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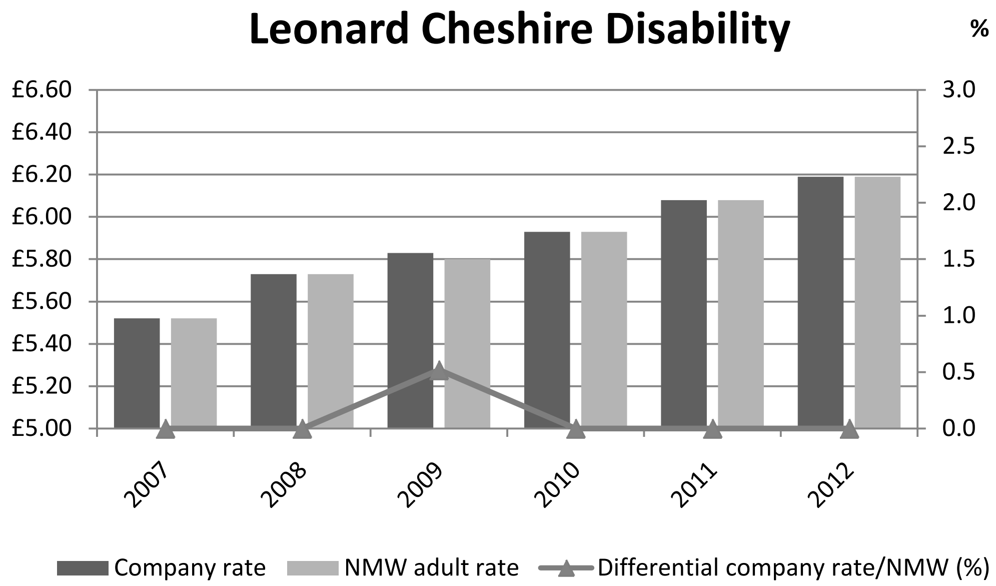
Company rate
NMW adult rate
Differential company rate/NMW (%)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3.0
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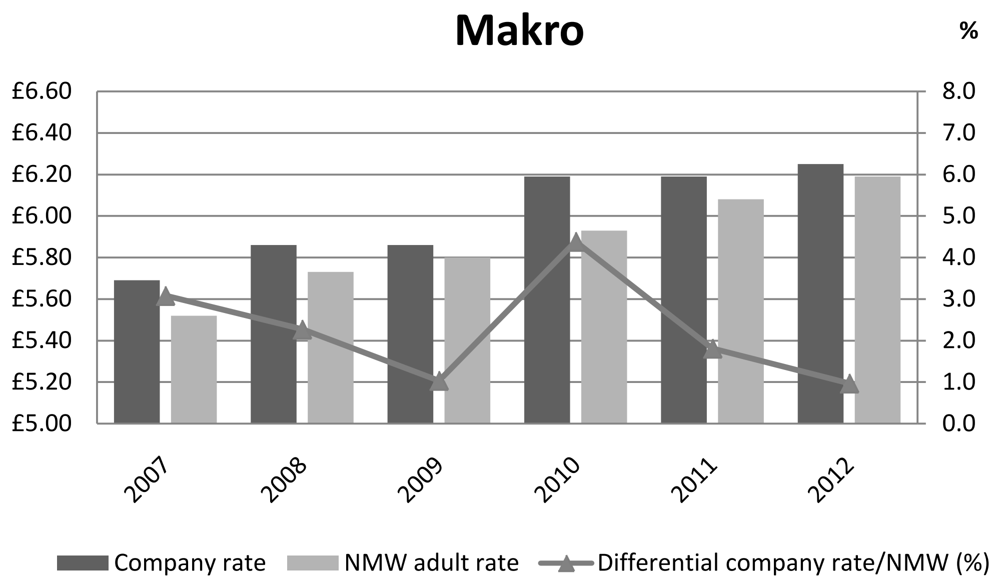
Company rate
NMW adult rate
Differential company rate/NMW (%)


Makro
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8.0
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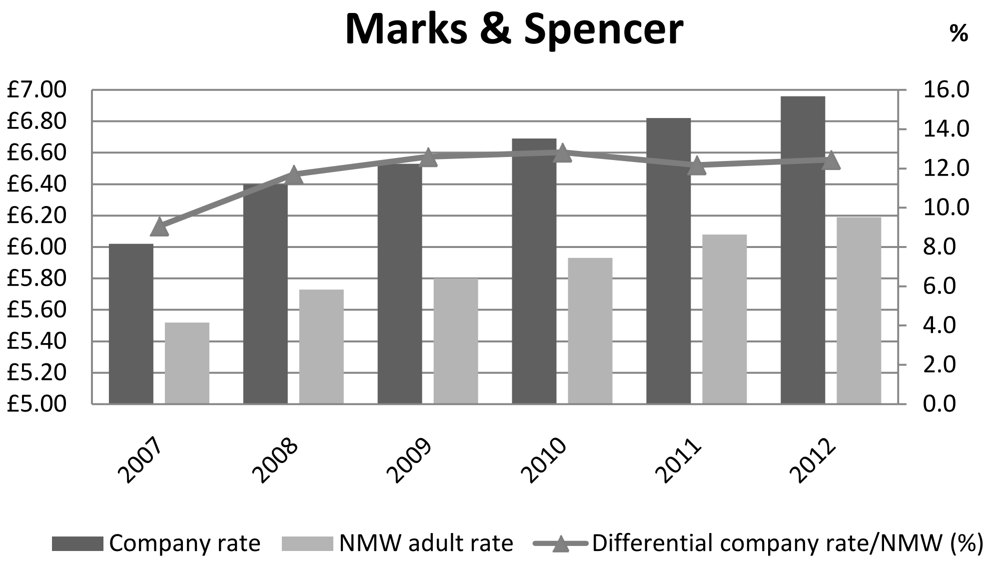
Company rate
NMW adult rate
Differential company rate/NMW (%)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£5.20
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16.0
14.0
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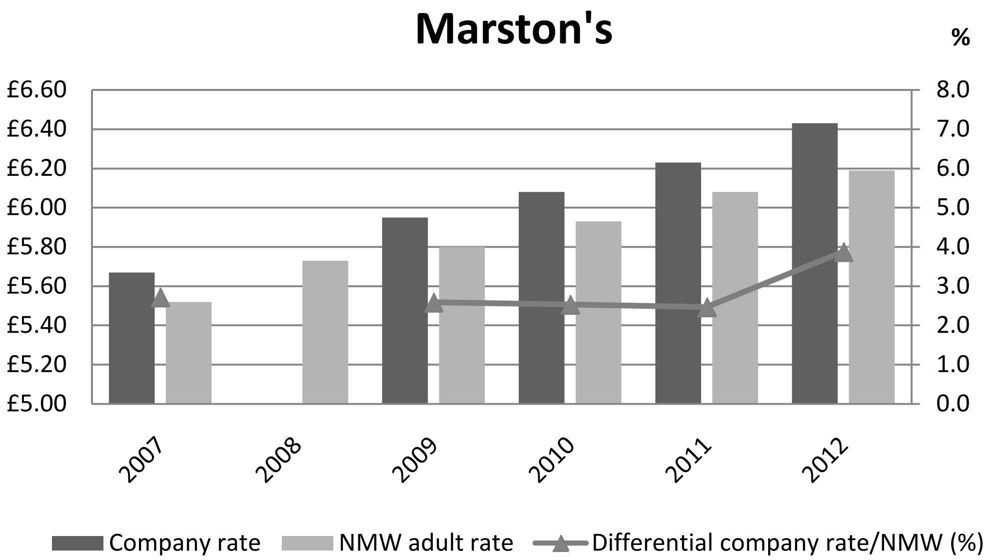
Company rate
NMW adult rate
Differential company rate/NMW (%)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£5.00
8.0
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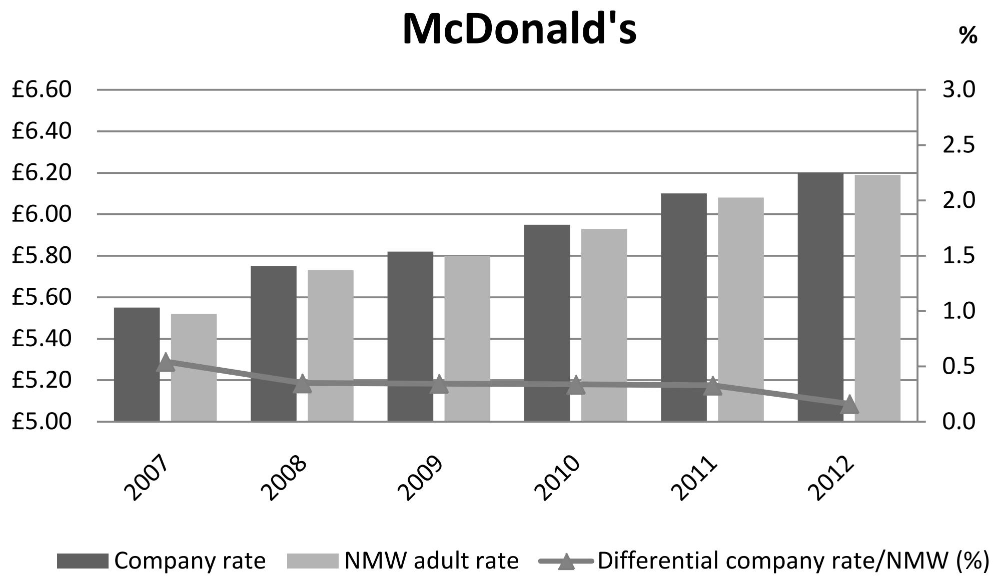
Company rate
NMW adult rate
Differential company rate/NMW (%)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3.0
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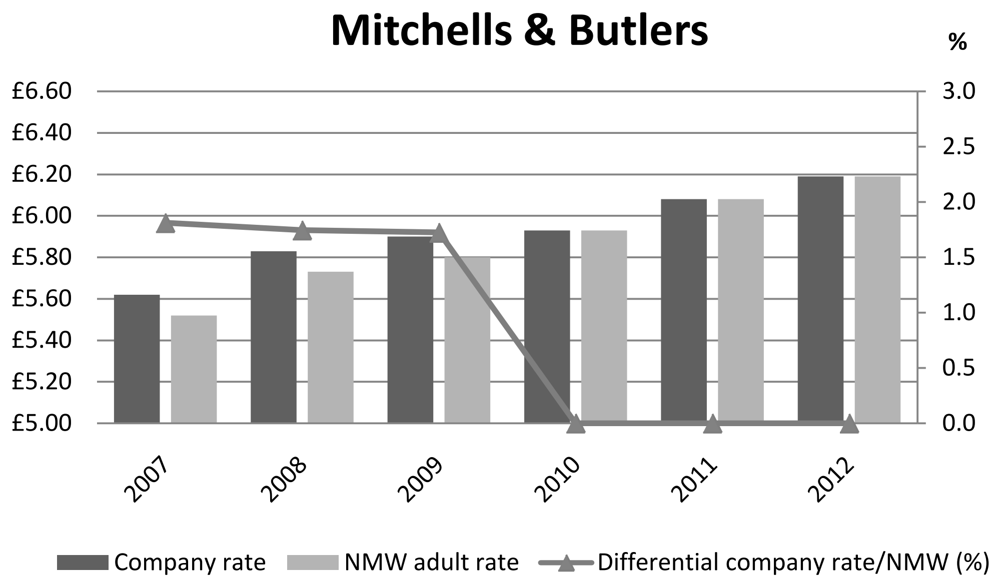
Company rate
NMW adult rate
Differential company rate/NMW (%)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£5.00
3.0
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2007
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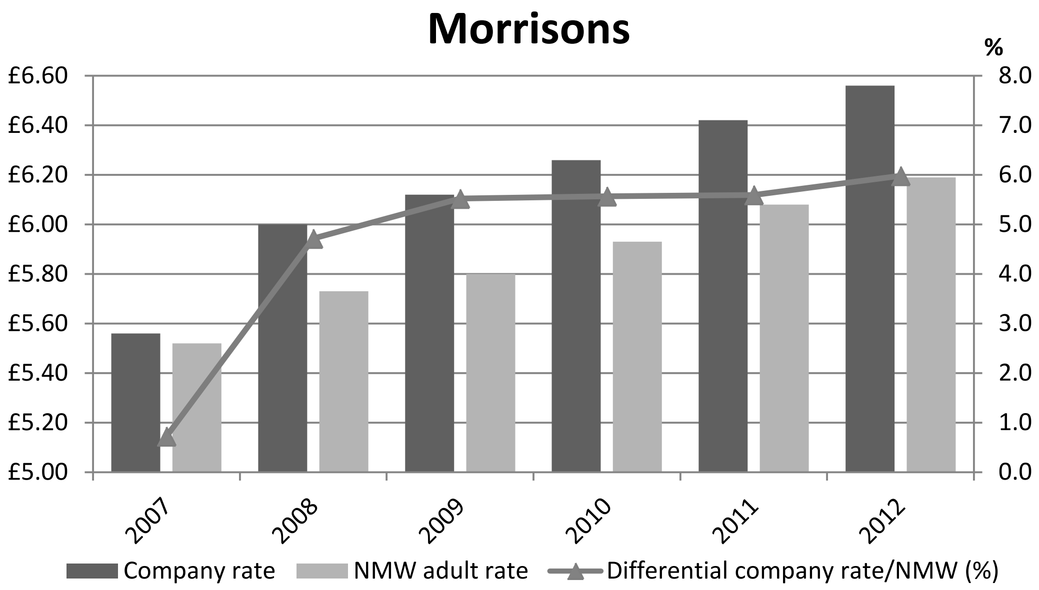
Company rate
NMW adult rate
Differential company rate/NMW (%)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8.0
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6.0
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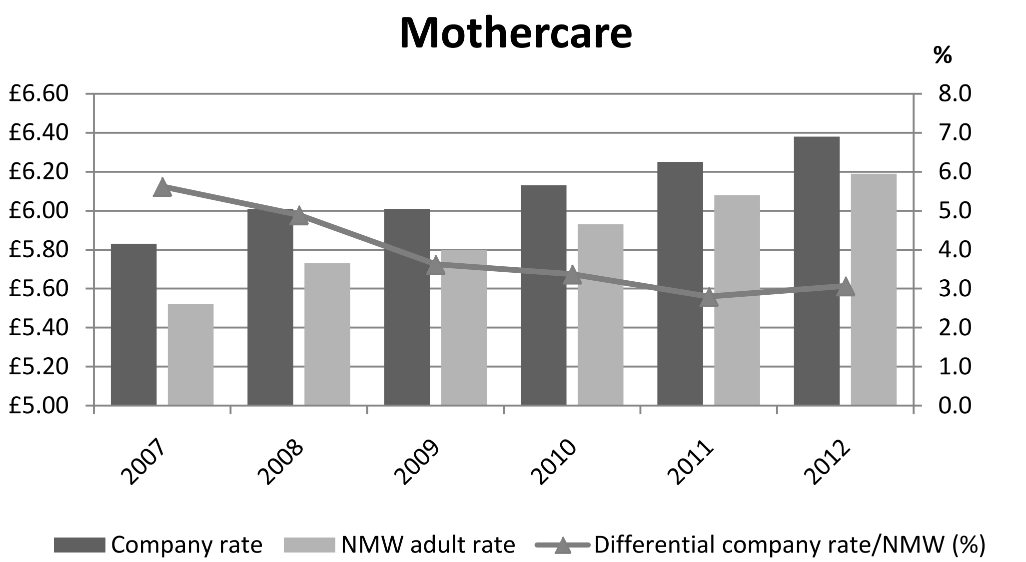
Company rate
NMW adult rate
Differential company rate/NMW (%)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7.0
6.0
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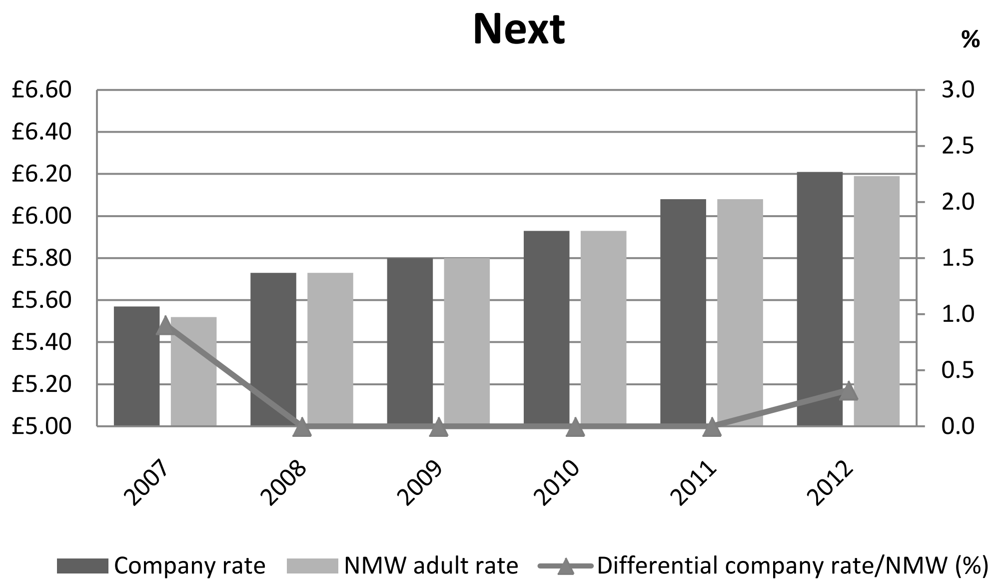
Company rate
NMW adult rate
Differential company rate/NMW (%)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3.0
2.5
2.0
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2007
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2009
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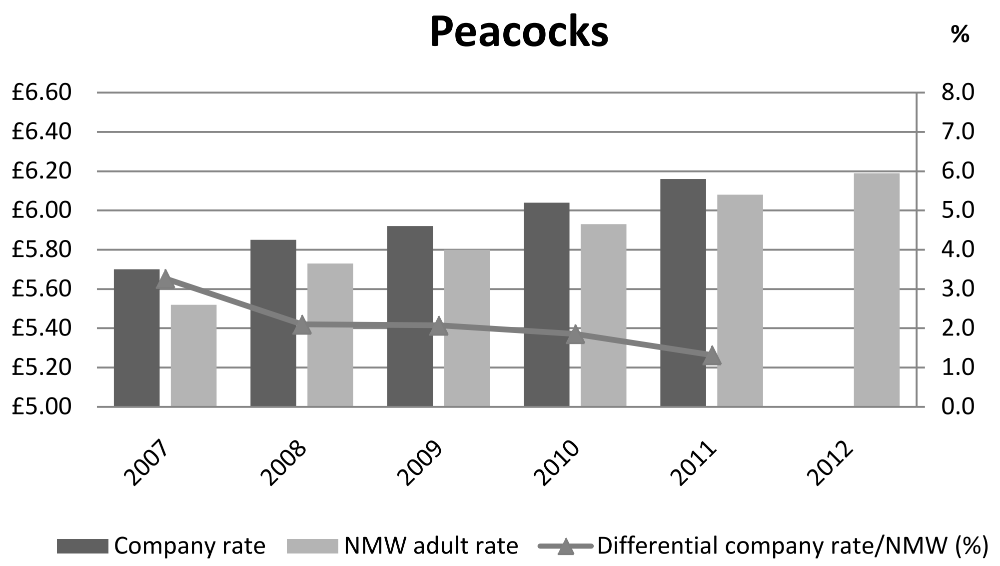
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)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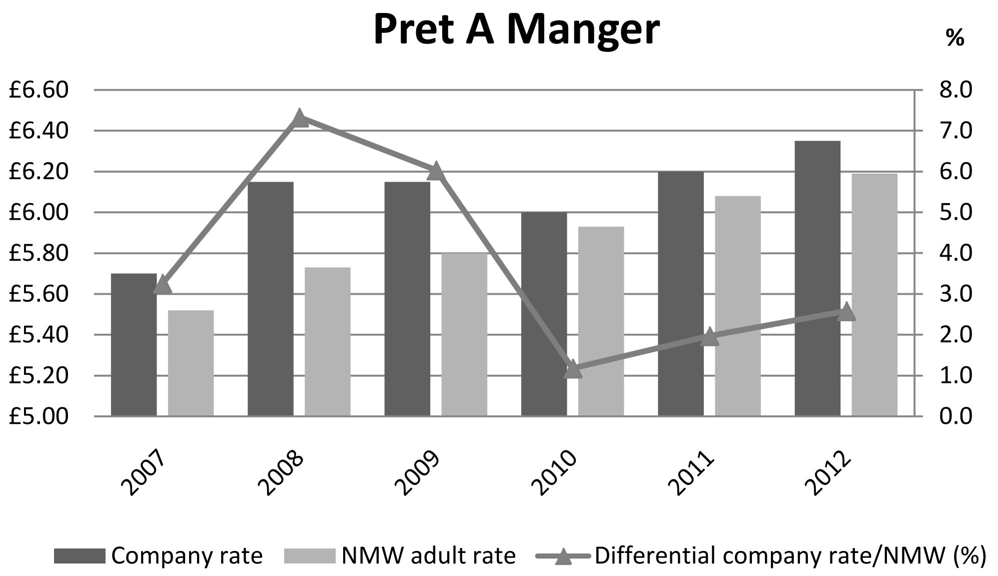
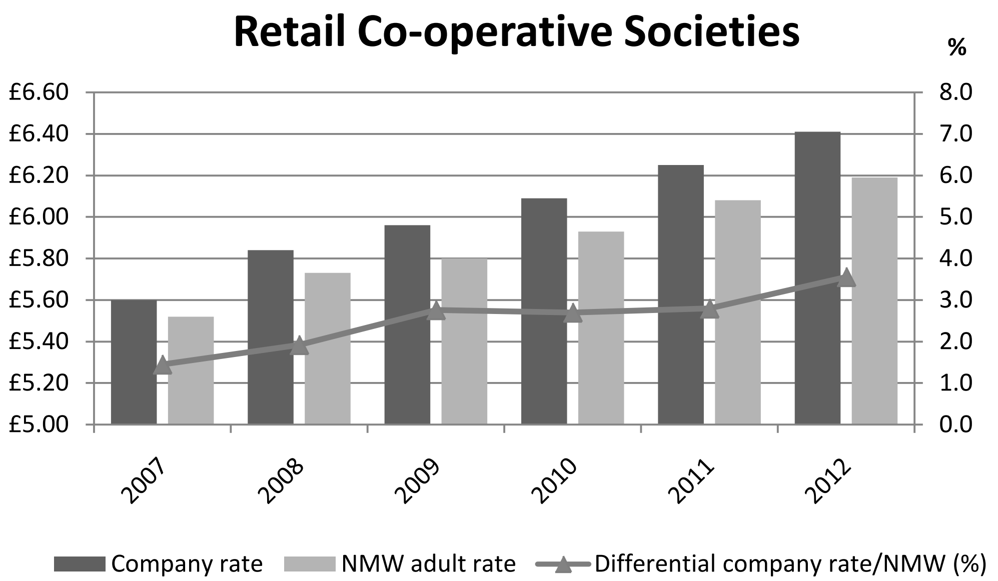
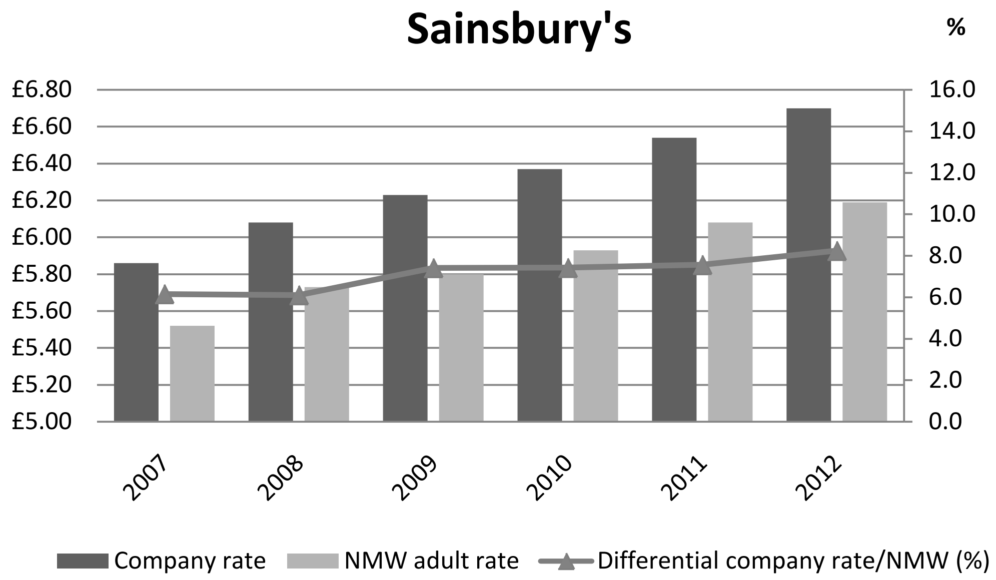
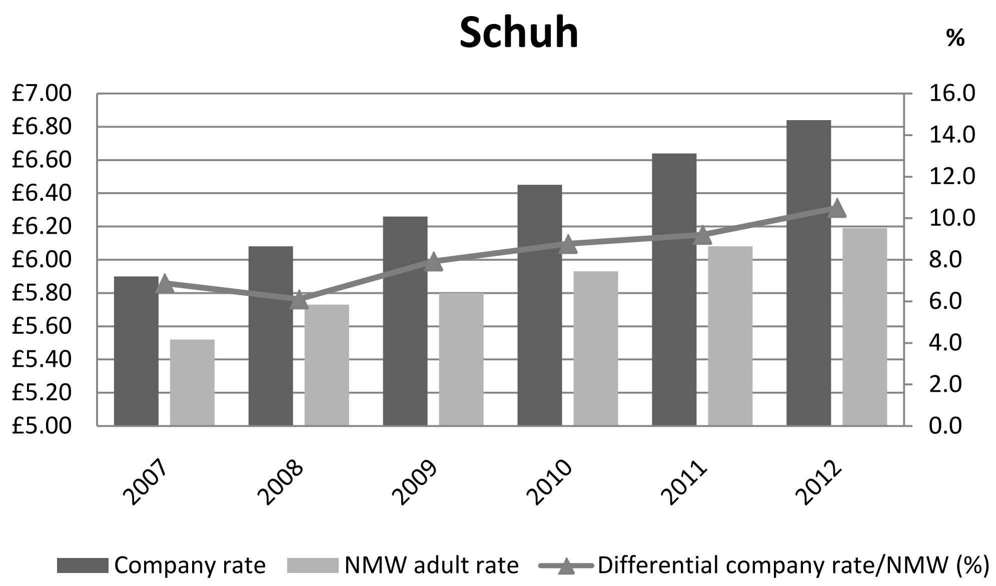
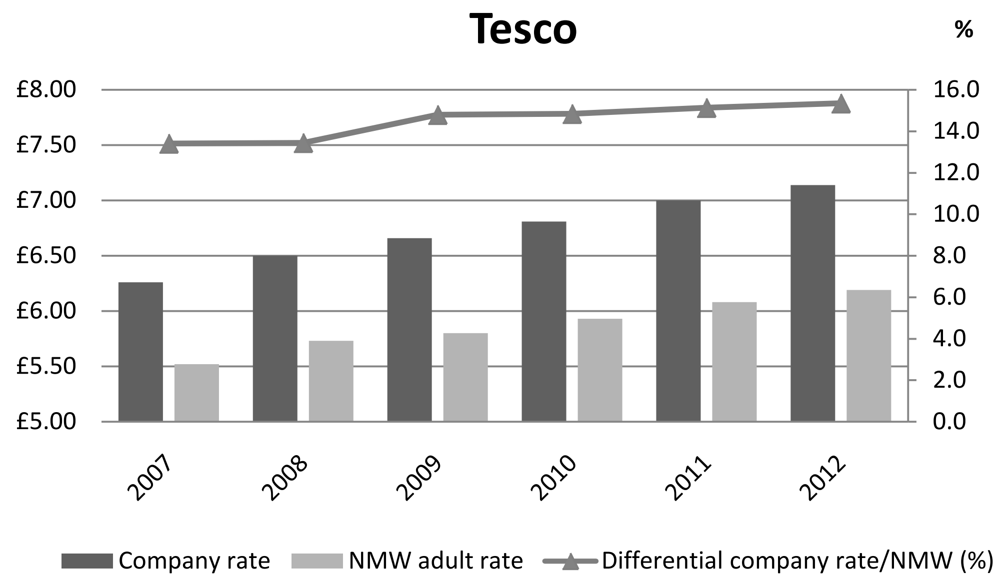
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)

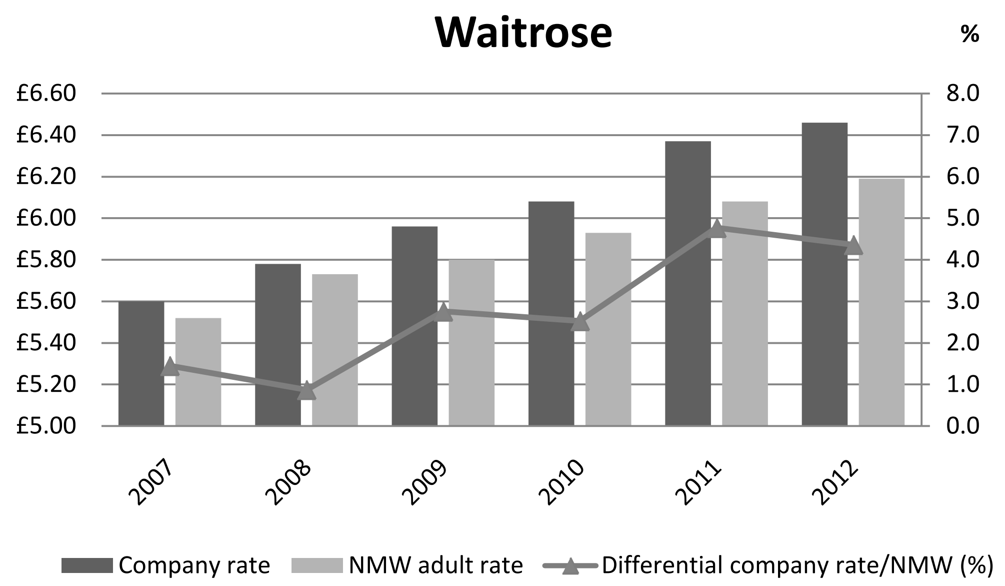

Pret A Manger
%
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)

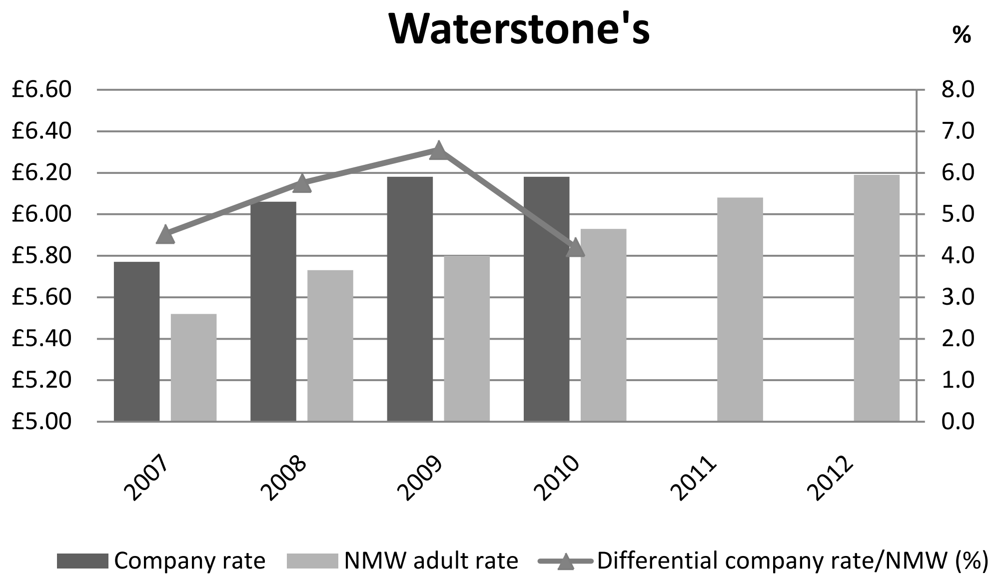

Retail Co-operative Societies
%
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)

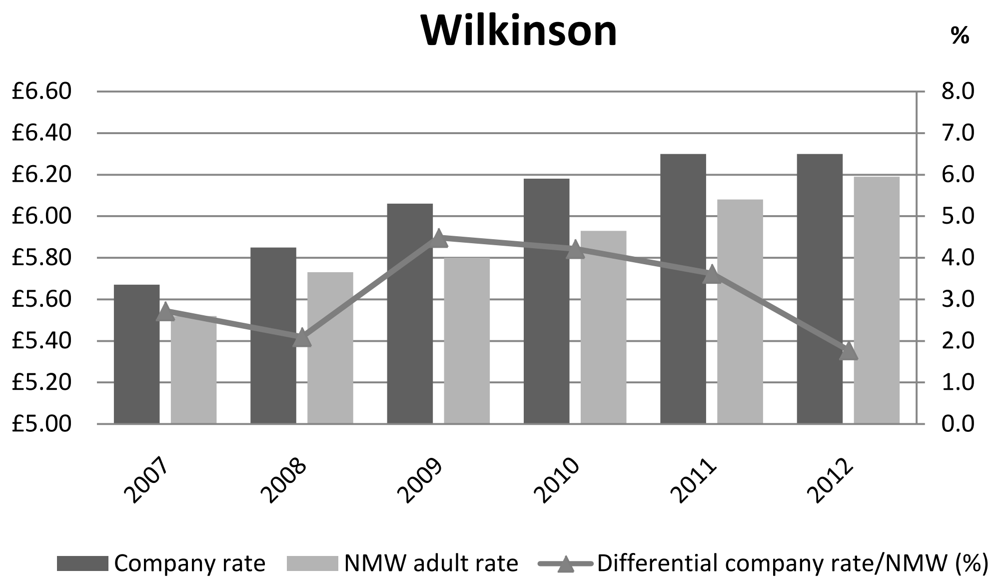

Sainsbury's
%
£6.80
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)


Schuh
%
£7.00
£6.80
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)


Tesco
%
£8.00
£7.50
£7.00
£6.50
£6.00
£5.50
£5.00
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)


Waitrose
%
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)


Waterstone's
%
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)


Wilkinson
%
£6.60
£6.40
£6.20
£6.00
£5.80
£5.60
£5.40
£5.20
£5.00
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2007
2008
2009
2010
2011
2012
Company rate
NMW adult rate
Differential company rate/NMW (%)

Appendix 2 – Low Pay Commission survey on non-pay benefits 2013

This page has been left blank intentionally. A copy of the survey follows on the next page.

Introduction

This survey is being conducted by Incomes Data Services (IDS) on behalf of the Low Pay Commission, the body that makes recommendations on the level of the National Minimum Wage.

It will take no longer than 5 minutes to complete and asks for information on employee benefits.

Your responses will remain anonymous and you will receive a free summary of the results as a 'thank you' for taking part.

Your participation is greatly appreciated and the information gathered will be part of the evidence that the Commission will consider when making its recommendations on the National Minimum Wage for 2014.

Employee profile

1. What is your organisation's main business activity?

2. How many employees do you have? (total headcount)

3. Do you have any employees paid £6.50 an hour or less?

- Yes
- No

4. What proportion of your employees are paid £6.50 an hour or less?

Employee benefits

5. Which non-pay benefits are offered to employees earning £6.50 an hour or less? (please tick all that apply)

- [ ] Staff discount
- [ ] Free or subsidised meals
- [ ] Company share scheme
- [ ] Childcare assistance
- [ ] Medical insurance
- [ ] Life insurance
- [ ] Sick pay over the statutory minimum (£86.70 a week for up to 28 weeks)
- [ ] Employer pension contributions
- [ ] Paid holidays (above 28 days minimum - including public holidays)
- [ ] Accommodation
- [ ] None

Other (please specify)

6. What do you consider to be the approximate value of these non-pay benefits relative to the overall reward package for employees earning £6.50 an hour or less?

- ○ N/a
- ○ 0 to 2%
- ○ 3 to 5%
- ○ 6 to 10%
- ○ 11 to 15%
- ○ 16%+

7. Has the level of non-pay benefits you offer to staff earning £6.50 an hour or less changed since the start of the recession (June 2008)?

○ Yes ○ No

If yes, how have they changed?

8. Are there any differences between the non-pay benefits received by lower-paid employees (paid £6.50 an hour or less) and higher-paid employees?

- ◯ Yes
- ◯ No

If yes, what are the main differences

9. What has been the influence of the National Minimum Wage on the provision of non-pay benefits in your company?

- ◯ Decrease in the level of non-pay benefits provision
- ◯ Increase in the level of non-pay benefits provision
- ◯ No change
- ◯ Other change

Please specify other changes as a response to the provision of the National Minimum Wage

10. As an employer, why do you offer non-pay benefits? (please tick all that apply)

- ☐ To help recruitment and retention
- ☐ Staff expect it
- ☐ Improve the value of the paybill
- ☐ Other

If other, please explain

Pay premiums

11. Do employees earning £6.50 an hour or less receive extra pay (a premium) for working any of the following:

	Yes	No
Shifts	○	○
Overtime	○	○
Saturday	○	○
Sunday	○	○
Public holiday	○	○
Unsocial hours	○	○
Other	○	○

If other, please specify

12. Have you made any changes to these premiums since the start of the recession?

○ Yes ○ No

If yes, what were the changes and why were they made? (please provide comments)

Pensions - auto-enrolment

The 2012 Government's workplace pension reforms require companies to automatically enrol eligible employees into a workplace pension to help them save for the future.

The date for employers to start automatically enrolling staff into a workplace pension varies according to the size of company.

The largest employers, with 10,000 employees or more, should have already begun this process and the smallest employers, with fewer than 30 employees, will start from October 2015.

Every employer will have received a letter confirming the date by which they have to comply. More details of the scheme including which employees are eligible and staging dates can be found at: www.thepensionsregulator.gov.uk/docs/automatic-enrolment-main-steps.pdf

13. Have you already begun automatically enrolling staff into a qualifying pension scheme?

○ Yes ○ No

14. When did you start auto-enrolling staff into a pension scheme?

15. What proportion of your employees fell within the scope of auto-enrolment?

16. What proportion of these are paid £6.50 an hour or less?

17. What proportion of those paid £6.50 an hour or less opted-out of the pension scheme following auto-enrolment?

18. What was the impact of auto-enrolment on your total wage bill?

- None
- Under 1%
- 1 - 2%
- 3 - 4%

19. When will you start auto-enrolling staff into a pension scheme?

20. What proportion of your employees will fall within the scope of auto-enrolment? e.g. UK employees aged 22 to state retirement age earning more than £9,440

21. What proportion of these are paid £6.50 an hour or less?

22. What proportion of those paid £6.50 an hour or less do you expect will opt-out of the pension scheme following auto-enrolment?

23. What do you expect the impact of auto-enrolment to be on your total wage bill?

- None
- Under 1%
- 1 - 2%
- 3 - 4%

Young workers

The National Minimum Wage sets the legal minimum wage for employees.

It varies by age and the current hourly rates are £6.19 for employees aged 21 and over, £4.98 for employees aged 18 to 20, £3.68 for employees aged 16 and 17, and £2.65 for apprentices.

24. Are you aware of the different National Minimum Wage rates for young workers?

- Yes
- No

25. What proportion of your workforce is under 21 years of age?

- 0 - 1%
- 2 - 10%
- 11 - 25%
- 26 - 50%
- Over 50%

26. Do you pay employees different rates of pay specifically linked to age?

- Yes
- No

27. What are the pay rates and age categories you use for younger workers? e.g. £4.98 for workers under 21

Pay rate (£ph), age paid:

Pay rate (£ph), age paid:

Pay rate (£ph), age paid:

28. At what age is a worker entitled to your full adult rate?

29. In recent years, have you increased or decreased your use of age-related pay rates for younger workers?

- No change
- Increased
- Decreased

If you have made changes, please state when and what the reasons were? (please provide comments)

30. Is having the option of paying lower rates to younger workers important?

- Yes
- No
- Don't know

If yes, please explain why

Your details

The survey will be analysed on an anonymous basis. Your details will not be passed on and are only requested for following up queries.

31. Please provide your contact details

Name	
Position	
Company	
Sector	
Telephone number	
Email address	