

# 15. Measuring prevailing wages to compare to a living wage

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## PART I. BACKGROUND

### 15.1 Introduction

Determining the gap between prevailing wages and a living wage is an important part of most living wage studies. This is essential information for the public, workers, employers and others in the value chain (e.g. producers, retailers, brands, and buyers); standard setting organizations with a living wage clause in their codes of practice; governments setting minimum wages and developing policies to reduce poverty; trade unions for collective bargaining and public awareness raising campaigns; and NGOs and international organizations concerned with poverty and worker rights. This makes it necessary to measure wages received by workers. However, this is not as straightforward as it might seem, because remuneration comes in many forms. This chapter discusses which forms of remuneration are appropriate to include in wages to compare them with a living wage. Although most forms of remuneration should be included when comparing workers' wages with a living wage, some forms of remuneration should be excluded, such as deferred benefits and overtime pay. Incentive pay and in kind benefits should be treated with caution.

There are two distinct ways to measure prevailing wages for comparison to a living wage. One way is based on wages paid in a particular industry and/or in particular establishments. This approach is used when a living wage study focuses on particular establishments or a particular industry because the study is funded by a company, NGO, or standard setting organization that wants to know whether an industry or establishment pays a living wage to workers. It involves collection and analysis of primary data and often requires access to payroll data or collective bargaining agreements (CBAs).

A second way uses average wages for relevant occupations and industries according to published secondary data. These wages are included in a wage ladder.

The remainder of this chapter focuses on the first approach in part

because for the second approach there is no choice but to use published average wage data as reported – although the following discussion is still useful for the second approach because it indicates how published average wages differ from the wages that conform to our guidelines for measuring prevailing wages for comparison to a living wage.

## 15.2 What are Wages and Remuneration?

According to ILO Convention 95 (Protection of Wages Convention) (1949), '**wages** means remuneration or earnings, however designated or calculated, capable of being expressed in money terms.' According to ILO Convention 100 (Equal Remuneration Convention) (1951), '**remuneration** includes the ordinary, basic or minimum wage or salary and any additional emoluments whatsoever payable directly or indirectly, whether in cash or in kind, by the employer to the worker and arising out of the worker's employment.'

This means that remuneration is complex and paid in a variety of forms such as:

- Basic wage including cost of living adjustment
- Cash allowances and bonuses
- In kind benefits
- Productivity bonuses
- Overtime pay
- Pay premiums for holidays, weekends, night work
- Fringe benefits
- Employer contributions to pensions and provident funds
- Deferred payments such as severance pay and pension.

How to treat each of the above to determine if an establishment pays a living wage and if a worker receives a living wage is discussed below. More detailed discussion is provided on in kind benefits in Chapter 16. Note that it is important to indicate in a transparent way in a living wage report how current wages are determined for comparison to a living wage. The following formula is used:

*Prevailing wage for comparison to a living wage = Basic wage with cost of living adjustment + most cash allowances + some fringe benefits + some productivity cash bonuses + some in kind benefits*

## **PART II. DETERMINING IF WORKERS RECEIVE A LIVING WAGE**

### **15.3 Principles for Deciding Forms of Remuneration to Include in Prevailing Wages for Comparison to a Living Wage**

As indicated above, remuneration is received in various forms. The remainder of this chapter discusses how different forms of compensation should be treated to determine if workers receive a living wage. The following general principles are used to decide which forms of remuneration should be included in current wages to determine gaps between current wages and a living wage.

- **Receipt assured**

Workers need to be able to count on receiving a wage, allowance, bonus, or benefit so that they are able to pay for ongoing expenses. Wages, benefits, and bonuses that are at the whim or discretion of the employer are too uncertain to ensure that workers can afford to maintain a decent life each and every month. This criterion means that bonuses that are not more or less guaranteed should not be counted for comparison to living wage. This includes when employers, at their own discretion, give workers a bonus at the end of a profitable year.

- **Received within one year**

Workers have limited capacity to smooth out their spending over time without having to borrow and run the considerable risk of getting into perpetual debt. We assume that workers are able to smooth out expenditures for up to one year. This criterion means that guaranteed cash allowances such as for national holidays and a 13th month cash bonus would qualify for inclusion in wages for comparison to a living wage. On the other hand, this criterion would exclude deferred payments such as pensions, provident fund, and severance pay, because they are received well in the future (in addition to being far from guaranteed in many countries).

- **Earned during standard working hours working at a normal pace**

The definition of a living wage (see Chapter 1) indicates that it must be earned in standard working hours. This means that overtime pay and pay premiums for holidays, weekends and night work are not appropriate to include in remuneration for comparing prevailing wages to a living wage. This also means that incentive pay bonuses

that require working overtime should not be included – this occurs when incentive payments are based on targets that are so high that many workers are not able to reach the target during standard working hours.<sup>1</sup>

- **Received in cash (except for in kind benefits and medical insurance)**

Remuneration needs to be available for ongoing expenses (i.e. paid in cash) or reduce such expenses (such as some in kind benefits). This implies that fringe benefits such as unpaid vacations, maternity leave and employer contributions to government social security programs should not be counted since they do not increase take home pay over what full-time workers earn. On the other hand, the value of in kind benefits and private medical insurance should be included because they reduce the cash wage required to pay for a decent standard of living. To avoid possible abuse, however, special rules are used to determine the monetary value of in kind benefits (see Chapter 16).

#### **15.4 Common Forms of Remuneration and Whether They Should be Included in Wages for Comparison to Living Wage**

This section discusses how to treat common forms of compensation for the purposes of comparing current wages with a living wage based on the above principles. Appendix 15.1 provides a compilation of different forms of remuneration that employers have indicated to us as worthy of inclusion in wages for comparison to a living wage – many of which are not appropriate for this purpose.

##### **15.4.1 Basic wage and cost of living adjustment**

Basic wage and cost of living adjustment *should be included* in wages for comparison to living wage.

##### **15.4.2 Overtime pay and pay supplements for holidays, weekends, and night work**

Overtime pay *should not be included* in wages for comparison to living wage. A living wage should be earned in a standard workweek (see definition of living wage in Chapter 1). Pay supplements for night work, weekends and holidays should also be excluded when they are in addition to pay for standard working hours.

##### **15.4.3 Production incentive bonuses**

Production bonuses are an important form of wage payment for many workers in developing countries. Many factories and farms in developing

countries emphasize incentive payments such as production bonuses whereby workers receive higher wages when they produce more than a preset minimum output. For example, tea pluckers in Malawi received a basic minimum wage for 44 kilos of plucked tea in a day in 2014, and additional pay for each additional kilo of plucked tea in the day. Similarly, sewers of shirts might receive  $x$  rupees for sewing, say, 100 shirts during a day, and  $x/100$  rupees for each additional shirt sewn during the day.

While production bonuses add to the disposable income of workers and so logically should be included in wages for comparison to a living wage, production bonuses are uncertain, often earned by only some workers, and often require overtime. This means that production bonuses need to be carefully scrutinized. Production bonuses received by most workers, and not associated with an especially fast work pace or overtime could be included for comparison to a living wage. This means that it is necessary to know how much most workers can produce during standard working hours at normal speed and skill. For example, say that workers receive a basic wage for 100 shirts sewn, plus a bonus for each additional shirt. If a typical worker is able to sew 120 shirts working at normal speed during standard working hours, then it would be appropriate to include in the prevailing wage the production bonus for an extra 20 shirts. If, on the other hand, typical workers are only able to sew 90 shirts working at normal speed during normal work hours, production bonuses should not be included in prevailing wages for comparison with a living wage because typical workers would not be able to achieve the bonus during normal working hours.

#### **15.4.4 Cash allowances and benefits**

Cash allowances differ from production incentive bonuses in that they are not linked to performance or productivity. Cash allowances and benefits should be included in wages for comparison with a living wage, because they increase the disposable income of workers when the general principles indicated above are met. Cash allowances can be an important part of wages in developing countries and are often included in CBAs.<sup>2</sup>

When cash allowances are paid once a year (e.g. year-end Tet bonus in Vietnam) or twice a year (e.g. twice yearly Eid bonus in Bangladesh), they should be pro-rated to represent a monthly value. For example, if all workers received a cash bonus on national Independence Day, this amount should be divided by 12 and added to the monthly salary. If all workers received a monthly salary of 2,400 plus a '13th month' payment of 2,400, the 13th month bonus would be worth 200 per month ( $2400/12$ ). A 13th month payment is legally binding in many countries. According to Wozniak (2015), workers receive a 13th month bonus in 16 Latin American countries.

Examples of typical cash allowances include:

- 13th month pay
- Transportation cash allowance
- Housing cash allowance
- National holiday cash bonuses
- Birthday cash bonus

#### **15.4.5 In kind benefits**

Some types of in kind benefits should be included as partial payment of a living wage. Which in kind benefits are acceptable and how these in kind benefits should be valued for comparison to a living wage is discussed in detail in Chapter 16.

#### **15.4.6 Fringe benefits**

Most fringe benefits do not qualify for inclusion in wages for comparison to living wage.<sup>3</sup> This includes unpaid vacation days and public holidays, sick leave and maternity leave, and employer payments required by law such as contributions to social security. Private medical insurance paid for by an employer is included in wages.

### **15.5 Allowances and Benefits Not to Include in Remuneration for Comparison to a Living Wage**

The following allowances and benefits should not be included in wages for comparison with a living wage, because they do not meet all of the principles indicated in Section 15.3.

- Overtime pay should not be included because living wage needs to be earned during standard working hours.
- Time off for holidays, annual leave, and sick leave should not be included because they do not add to disposable income of workers above what they normally earn.
- Maternity and paternity leave should not be included because they do not add to disposable income of workers above what they normally earn.
- Employer contributions required by law, such as for social security programs, unemployment insurance, and workers' compensation/injury insurance should not be included because they do not add to disposable income of workers within one year.
- Pension, provident fund, and severance payment should not be included because they are not received within one year.

### **15.6 Types of Workers to Use to Determine Whether Establishments or Industries Pay a Living Wage**

To determine whether an establishment or industry pays a living wage, it is necessary to decide on the type or types of workers to use to measure prevailing wages, since establishments employ different types of workers each with its own range of wages. For example, garment factories have various types of production workers (e.g. machine operators, folders, cutters, and iron men), support staff (e.g. mechanics, cleaners, loaders, security guards, and drivers), and management. Within occupations there are various sub-categories. For example, in garment factories there might be several sub-categories of machine operators such as assistant machine operators, junior machine operators, machine operators, and senior machine operators. It would be possible to use the wages of (i) all workers, or (ii) all production workers, or (iii) certain type or types of workers, or (iv) workers with certain grades, or (v) occupations with the largest numbers of workers.

To determine if an establishment or industry pays a living wage, we recommend using:

- Occupations or grades with the largest numbers of production workers. The proportion of all workers in each occupation or grade should be indicated.
- Categories of workers should be large enough so that the selected categories include the majority of workers. Our recommendation is in keeping with the practice of the Fair Labor Association (FLA, 2016) with whom we collaborated, which collects compensation data for the four largest occupations in each establishment.

We do not recommend using wages of all workers in an establishment, because this would include management who have higher pay and apprentices who have lower pay. Nor do we recommend using wages of all production workers, because this would mix higher and lower paid activities and occupations.

## **NOTES**

1. How paid public holidays, paid vacation days, and paid sick leave should be treated depends on how workers are paid and the type of contract they have. Pay for public holidays, sick days, and vacation days should be added to wages per month and per year when workers are employed on a daily basis, because they increase take home pay. Paid public holidays, vacation days and sick days should not be added to wages when they do

not affect take home pay per month or per year – which usually happens with monthly or yearly contracts.

2. We have found that workers receive a variety of cash allowances in living wage studies. For example, we found that cash allowances represented around 20% of wages for new hires on Kenya fresh cut flower farms. A survey of 68 enterprises covering 46,121 employees in Vietnam by the Vietnam General Confederation of Labor (2013) found that 95% of employees received an end of year cash bonus, 25% received cash meals allowance, 17% received cash housing allowance, and 25% received cash responsibility allowance. We found that factory workers in Vietnam also received cash bonuses for some of the following: Birthday, Children's Day, Company Day, Solar New Year Day, National Day, Victory Day, birth, marriage, and death in the family.
3. According to the Davis-Bacon Act of the Federal Government of the United States, 'fringe benefit examples are: life insurance, health insurance, pension, vacation, holidays, sick leave, other "bona fide" fringe benefits. However, payments required by federal, state or local law are **not** fringe benefit contributions. Such payments required to fund Social Security, unemployment compensation and workers' compensation programs, as required by law, do not count as fringe benefits' (United States Department of Labor, Wage and Hour Division, undated).



## APPENDIX 15.1 VARIOUS FORMS OF REMUNERATION CLAIMED BY EMPLOYERS IN OUR EXPERIENCE AND WHETHER THEY SHOULD BE INCLUDED IN PREVAILING WAGE FOR COMPARISON TO A LIVING WAGE

Table 15A.1 *Various forms of remuneration claimed by employers*

Forms of remuneration	Whether to include in wages for comparison to a living wage
<b>Cash wages, allowances, and bonuses</b>	
Basic wage	Include.
Housing allowance	Include.
Transport allowance	Include.
Non-production bonuses paid once or several times during year	Include. Pro-rate to get monthly amount. Examples: 13th month, Eid allowances, birthday bonus, bonuses for holidays.
Retention bonus	Include. For industry use average amount per worker.
Allowance to visit 'home'	Include. For industry use average cost or value per worker when amount varies with distance and/or family size.
Attendance allowance	Include. For industry use average amount per worker; or adjust for % receiving.
Child allowance	Include. For industry use average amount per worker.
Production/incentive bonus	Include when earned during standard working hours at normal working pace. Exclude if need to work overtime to meet minimum target.
Overtime	Exclude. Not earned in normal work hours.
Night shift, weekend, and holiday pay premiums	Exclude. Not earned in normal working hours.

Table 15A.1 (continued)

Forms of remuneration	Whether to include in wages for comparison to a living wage
Cash bonus when profits are good	Exclude as uncertain, unless assured in advance such as when based on last year's business results and given to most workers.
Responsibility allowance/Technical skill allowance	Exclude. Few workers receive these and usually for only higher paid workers.
<b>In kind benefits (limits set on amounts)</b>	
Housing and utilities such as water or electricity for home	Include when decent. Deduct co-pay. Maximum 15% of wages. Exclude housing for seasonal workers as they still need year around housing.
Meals	Include. Deduct co-pay.
Food rations or food commodities given for free or sold at concession rates	Include. Deduct co-pay.
Transport to work and from work (and to town on weekends from agricultural estates)	Include when safe.
Child care/crèche	Include. For industry use average value over all workers.
School for workers' children	Include. For industry use average value over all workers.
Meals in crèche or school	Include if paid for by employer. For industry use average over all workers
Medical services not required by law and not related to work injuries and illnesses	Include. Need to determine cost per worker to employer.
Private medical insurance	Include. Deduct co-pay.
Medical expenses paid for treatment in other clinics and hospitals	Include. Need to determine cost per worker to employer.
Transport to hospital/other health services	Include when for other than work-related problems. Need to determine cost per worker to employer.

Medical services related to work injuries and illnesses	Exclude. Work-related.
Schools or hospitals on estate, in factory, or in industrial zone supported by government or Fairtrade	Exclude. Not paid for by employer and so no cost to employer.
Security guard for company housing	Exclude. Protects company property.
Christmas meal or food basket	Exclude. Small value and similar to charity.
Drinking water at work	Exclude. Work-related expense.
Right to collect firewood for free	Exclude. Difficult to value as takes worker or spouse time.
Transport within workplace	No cost to employer.
Educational assistance for children, scholarships, etc.	Exclude. Work-related.
Land to build house on	Exclude. Unless many workers' children receive this.
Land to grow vegetables	Exclude. Land not owned by worker & cannot be sold.
Animal husbandry facilities	Exclude. Difficult to value as takes worker or spouse time. Little or no cost to employer.
Recreation facilities and activities	Exclude. Difficult to value as takes worker or spouse time.
Flowers for weddings or funerals	Small cost to employer.
Condolence allowance for death of relative	Exclude. Benefits employer to improve worker morale. Often small cost. For company football team, only some men participate.
<b>Fringe benefits and other benefits</b>	Exclude. Infrequent and small value.
Paid time off for sickness or holidays	Exclude. Infrequent and small value.
Unpaid time off for sick leave, holidays, maternity leave	Exclude unless employed on daily basis.
Gratuity/severance pay	Exclude. Does not increase monthly pay.
Funeral costs for worker who dies	Exclude. Not received within year.
Support for night classes	Usually exclude. Not received within year. Can be included if considered as an insurance.
HIV/AIDS or reproductive health classes	Exclude. Does not affect living expenses or immediately add to wages.
	Exclude. Does not affect current wage.

Table 15A.1 (continued)

Forms of remuneration	Whether to include in wages for comparison to a living wage
Occupational health and safety programs	Exclude. Work-related.
Protective clothing, and work-related equipment and supplies	Exclude. Work-related.
Finish work at 1:30 so can do other work	Exclude. Similar to overtime.
Pension	Exclude. Does not increase current income.
Care for retirees	Exclude. Does not increase current income.
Loans and advances	Exclude. Does not increase current income.
Fairtrade premium or similar scheme	Exclude. Not paid by employer.
Community projects such as building schools or other facilities in community	Exclude. Not mainly for workers but for community. Not part of remuneration – it is not in return for work performed.
Job security	Exclude. Does not reduce living cost.
Visa or work permit	Exclude. Work-related.
Employers legally mandated contributions to Social Security or National Health Services	Exclude. Does not increase current income.