

MODEL FOR CALCULATING A LIVING WAGE – RECOMMENDATION BY FINNWATCH

Definition	<p>A living wage is a take-home pay received by a worker for a standard work week sufficient to afford a basic, but decent, standard of living for the worker and his/her family in a particular location. The wage is enough to satisfy the family's essential needs – food, housing, clothing, transportation, healthcare, education etc. – and also enables modest savings for unexpected events and participation in social and cultural life.</p>
Formula for calculation <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> $\frac{C}{W} + S$ </div>	<p>C = monthly living costs of a household at the level of basic, acceptable quality of life (household = family of 2 adults and 2 children or more if typical)</p> <p>W = number of full-time workers in a household (typical number: w=equivalent 1.x or simplified assumption: w=1.5 or w=1.0 in which case c=living costs-childcare expenses)</p> <p>S = share of salary set aside for savings (10 %)</p>
General guidance for measuring living costs	<ul style="list-style-type: none"> – living costs should be estimated for a particular location so that significant differences in living costs between cities and areas within a country are taken into account – calculations should be based on basic essentials that are of low cost, but of sufficiently good quality, and that local workers typically buy (in accordance with shopping habits, preferences, availability of commodities) – prices should be adjusted for seasonality where appropriate (food and possibly other) – minimum decent standards for most important basic essentials should be determined, as a point of reference for calculating living costs – should be consistent with what is considered acceptable in the specific location at a country's current development level – a variety of information sources should be utilised in a versatile manner, for example statistics, market surveys, employee questionnaires and interviews, data from local organizations and stakeholders – available secondary household expenditure data (on the average share of food, housing and other basic essentials in total household expenditure) can be used as a point of reference for checking that estimated living costs are sufficient – where needed, estimated adjustments should be made to take into account for e.g. assumed workers' hidden costs and unreported costs – local employees, trade unions and other stakeholders should be consulted and involved in estimating the living costs in order to ensure an adequate living wage
Food and drink	<ul style="list-style-type: none"> – the cost of a nutritious, low-cost diet in a particular location is calculated by determining <ol style="list-style-type: none"> (1) a minimum energy and nutritional intake, (2) the composition of a model diet, and (3) the price of a food basket needed to acquire the model diet – dietary energy requirement should meet FAO's and WHO recommendations on calories (at least 2,100 calories per day necessary for good health, according to FAO/WHO; or the dietary energy requirement specified in connection with the national poverty lines, if more than the aforementioned; a higher energy requirement for workers with physically demanding jobs) – the diet should meet at least the FAO's and WHO's dietary nutritional recommendations (at the moment a minimum of 10-15% of energy from proteins, 15-30% from fats, 55-75% from carbohydrates)
Housing	<ul style="list-style-type: none"> – housing costs comprise of <ol style="list-style-type: none"> (1) local average rent of basic acceptable housing for a living space required by a typical family, (2) utility costs such as electricity, water, fuel, and maintenance – benchmarks for decent housing: UN-Habitat, Habitat for Humanity and other organizations that have issued international, national and local standards and guidelines for housing – important to consult stakeholders
Other essential needs	<ul style="list-style-type: none"> – transportation (public transport, two-wheeled vehicles) – healthcare – childcare – children's education (typical costs; benchmark: one child in primary school, the other in secondary school) – household furnishings and equipment – communications (telephone and internet) – personal hygiene – recreational and cultural activities

Public or private services	<ul style="list-style-type: none"> – in principle, only the use of free-of-charge/affordable public services should be taken into account – private fee-based services are only taken into account, if more affordable public services are not effectively available or they are not of sufficiently good quality
Savings	<ul style="list-style-type: none"> – a margin of 10% is added to living cost estimation (“poverty buffer”) to cover discretionary expenses, savings and unexpected events (illnesses, accidents, unemployment, etc.)
Monetary support to relatives	<ul style="list-style-type: none"> – wage should also cover worker’s possible regular monetary aid to close relatives (common in some developing countries)
Size of family to be supported	<ul style="list-style-type: none"> – at least 4 persons (2 adults and 2 children) – more than two children, if families typically have more children to provide for in the location
Number of full-time workers per couple in family	<ul style="list-style-type: none"> – 1.x full-time workers per household providing monetary support (equivalent corresponding with the average for full-time workers per household in a particular place) – can be estimated based on the labour force participation rates, employment/unemployment rates and data on typical working hours in the area (adjusted for seasonality) – 1.5 providers as a benchmark (equivalent cannot generally be much greater than this): a greater number must be explained and justified and local stakeholders consulted to ensure that the estimation corresponds to the actual situation for a longer period of time in a sufficiently large and relevant area – OR: a simpler model is to use an assumption of 1.5 full-time workers (1 full-time, 1 part-time), if this, more or less, meets with the area’s average and does not exceed it (it must be ascertained whether the salary is sufficient to cover childcare) – OR: a simpler option is to use a default that does not take the other parent’s income into account at all, in which case living costs estimation need not include typical childcare costs (also other effects to other household costs, such as spouse’s transportation costs, could be discussed with workers and other stakeholders)
Working hours	<ul style="list-style-type: none"> – a salary must be earned within standard working hours, i.e. regular working hours (not including overtime) – the absolute maximum limit is 48 hours per week
In-kind benefits	<ul style="list-style-type: none"> – a worker’s salary can be paid partly in the form of in-kind benefits only if these are in accordance with legislation and they are fair and reasonable (paid regularly, appropriate and beneficial, usual, of sufficiently good standard, reasonably and fairly valued) – only a small portion of a salary can be paid in the form of in-kind benefits, as workers have the right to use their disposable income in the manner they desire (at most 30%) – pay bonuses and other additions to the basic salary should not be included to the living wage calculation as they are usually irregular and uncertain)
Taxes and other mandatory payments	<ul style="list-style-type: none"> – living wage estimation covers statutory and other mandatory payments, such as taxes and social security payments (health, unemployment insurance and employee pension premiums, etc.) – also trade union membership fees, documentation and recruitment fees deducted from workers’ salaries as well as in-service training costs and other employees’ hidden costs the employer is responsible for should be taken into account
Adjustment to inflation	<ul style="list-style-type: none"> – regularly, and at least once a year – before the annual cycle, if there has been a swift and relatively large rise in consumer prices
Transparency of the living wage calculation	<ul style="list-style-type: none"> – the calculation process shall be well-documented – the calculation shall be transparent: methodology, assumptions used and information sources shall be described in sufficient detail
Involvement of local stakeholders	<ul style="list-style-type: none"> – stakeholders including workers, trade unions and civil society organisations should be consulted and involved in the living wage estimation process
Respecting the right to collective bargaining	<ul style="list-style-type: none"> – a living wage estimation cannot replace freedom of association and collective bargaining