

## **Before and After the Statutory Minimum Wage Ordinance in Hong Kong: Survey of Low-income Workers and their Families**

### **Executive Summary**

#### **Introduction**

The Statutory Minimum Wage Ordinance was passed by the Legislative Council in July 2010. Its intent was to ensure that employees were paid an adequate wage to sustain a living and to narrow the prevalent wage gap, without significantly impacting economic growth or competitiveness. The Chief Executive in Council accepted an initial Statutory Minimum Wage rate of \$28 per hour recommended by the Provisional Minimum Wage Commission in November 2010. With the approval of the Legislative Council in January 2011, the initial minimum wage rate came into force on Labour Day, 1 May 2011.

As the Hong Kong Government had no experience in implementing a minimum wage, and in the absence of adequate empirical data and evidence, its assessment of the likely impact of the legislation had inherent limitations, as there were many factors involved including fluctuations in the economy and the labour market. Nevertheless, it was estimated that setting a minimum wage for grassroots employees would provide a better standard of living for about 273,800<sup>1</sup> workers, and would protect workers from being unfairly underpaid.

Different sectors of society had anticipated repercussions and challenges with regard to the implementation of the minimum wage. Both employers and employees voiced concerns. Many employers reviewed their contracts with employees and adjusted salaries and remuneration packages.

Against this background, Oxfam Hong Kong commissioned a study to compare the living standards and conditions of low-income workers and their families before and after the implementation of the Statutory Minimum Wage Ordinance, and to examine to what extent this legislation, combined with other welfare measures like Comprehensive Social Security Assistance (CSSA), is raising low-income workers' families out of poverty.

This summary presents the study's research methodology, its key findings, and Oxfam Hong Kong's policy recommendations for the Hong Kong Government in order to relieve poverty.

#### **Research methodology**

The target respondents of this research were families whose monthly household income was less than 50% of the median income for households of corresponding size, and which included at least one employed person paid at an hourly rate below \$28 per hour in March 2011, before the implementation of the Statutory Minimum Wage. The research consisted of two surveys. The first, identified as "Time 1" (T1), was conducted from March to April 2011, just before the new law went into effect; the second, termed "Time 2" (T2), was conducted from November

<sup>1</sup> From the 2010 Report on Annual Earnings and Hours Survey of the Census and Statistics Department.

2011 to January 2012. A two-stage stratified systematic sample design was adopted in the T1 survey, and target respondents defined as above were selected as interviewees. For the T2 survey, respondents who completed the T1 survey were contacted for a second round of interviews. A total of 520 families were interviewed, representing the 187,600<sup>2</sup> low-income households in Hong Kong in which at least one person was employed; these households comprise a total population of 650,900. The overall response rate was 70%.

## Key Findings

### 1. Income and wage changes due to Statutory Minimum Wage

#### 1.1 Household income increased for 69.9% and individual worker's income for 72.6% of respondents after the introduction of the minimum wage.

The survey results showed that 69.9% of respondents, representing 131,125 low-income workers' families, benefitted from an increase in household income after the minimum wage was introduced. (See Table 1 or Report 3.3.1)

Moreover, 72.6% of respondents reported that their monthly individual income increased after the minimum wage was introduced. (See Table 2 or Report 4.2.1, 4.2.3) These findings would indicate that the minimum wage policy has had positive impact on low-income workers and their families.

However, the results of the T2 survey showed that 27.4% of the respondents, representing 51,472 low-income workers' families, suffered a reduction in household income after the implementation of the minimum wage. In addition, about one-fifth (19.6%) of respondents in T2 reported that their monthly individual income had been reduced. (See Table 1, 2 or Report 3.3.1, 4.2.1)

#### 1.2 The average hourly wage of low-paid workers significantly increased; more than half received slightly above \$28 per hour.

Among the 69.4% of respondents who remained in the same job before and after the minimum wage was adopted, the average hourly wage increased significantly, from \$20.9 in T1 to \$29.1 in T2. **Of this group, 56.8% received an hourly wage of \$28-\$28.9.** (See Graph 1 or Report 4.2.2, 4.2.3)

#### 1.3 Working hours were reduced by 5.6%.

However, among respondents who remained in the same job before and after the minimum wage was adopted, **the average monthly working hours were cut from 250.1 in T1 to 236.2 in T2, a reduction of 5.6%.** (See Table 3 or Report 4.2.4)

#### 1.4 Nearly half of low income workers (46.6%) were deprived of paid rest days and 15.0% lost paid meal breaks. (See Table 3 or Report 4.2.4)

Again, among respondents who remained in the same job from T1 to T2, about half

<sup>2</sup> The number of low-income households with at least one person employed and a household income below 50% of the median income of households of corresponding size is from the Census and Statistics Department's General Household Survey Q1, 2011.







Ordinance to close legal loopholes that allow violations of the spirit and purpose of the Statutory Minimum Wage.

**CSSA policy:**

**4. The “disregarded earnings” system under the CSSA scheme should be revised.**

To provide incentives for people to work, we suggest that the Government review the maximum income allowed as ‘disregarded earnings’ for households to qualify for CSSA.

We also suggest that the Government explore the feasibility of allowing people to retain earned income in a personal savings account subject to restrictions on immediate use. CSSA benefits could be terminated once savings exceeded the upper limit of the assets test. This would encourage adults to work and pave the way for them to quit the CSSA scheme.

According to Government figures, three-member families are the largest group of low-income households receiving CSSA, comprising about 29%<sup>3</sup>. If a three-member family is composed of two working adults and one child, the asset limit would be \$49,500<sup>4</sup>. According to Government figures, the average monthly personal income of a low-income worker on CSSA is \$5,377<sup>5</sup>. Under our proposed system, a working adult would be able to save up to \$2,877 (\$5,377 minus the maximum disregarded income of \$2,500) per month. The family would then quit the CSSA scheme in 17 months, after acquiring the maximum allowed assets.

**Child care support:**

**5. Subsidized child-care programmes should be expanded.**

According to our research, families with children are more likely to face deprivation than those without children. Moreover, among households with children under 12, about one-fifth reported that the children were left alone at home after school as their parents were working. This demonstrates an urgent need to strengthen child-care support to low-income families.

We propose that the number of subsidized places and fee waivers for low-income families be increased in both the “Neighbourhood Support Child Care Project” and “After School Care Programme”.

**6. The feasibility of a tax credit programme should be explored.**

Tax programmes, including working and child tax credits, are effective measures against poverty in the United Kingdom, United States and Western Europe. Such schemes aim to reduce the cost of child care for poor families with children, thus encouraging the adults in such families to remain in the labour market and increase the family income. We suggest that the Government explore the feasibility of implementing such a programme in order to relieve poverty in Hong Kong.

<sup>3</sup> Social Welfare Department, 2010-11

<sup>4</sup> Social Welfare Department, <http://www.swd.gov.hk/doc/social-sec/CSSAG0212e.pdf>

<sup>5</sup> Social Welfare Department, 2011-12







Table 10: Care of children of low income workers' families after school

Care of children	T1 (%)	T2 (%)
Children left home alone and supervised after school	24.6	22.3
Children looked after by family members or friends after school	75.4	73.5
Go to tutorials after school	0.0	4.2
Total	100.0	100.0

Table 11: Deprivation and the hourly wage of low income workers

Hourly rate	Mean deprivation score
\$28 - 29.9	3.26
\$30 - 31.9	3.76
<b>\$32 - 33.9</b>	<b>2.78</b>
\$34 or above	2.42

Table 12: Minimum hourly wage equalize to CSSA level (Source : Census and Statistic Department (2011), Social Welfare Department (2012))

Number of people in household	Per cent of households of each size <sup>6</sup>	Adjusted per cent of households of each size <sup>7</sup>	Average monthly CSSA payment to families of corresponding size <sup>8</sup> (Basic standard of living)	Average number of employed people in household <sup>9</sup>	Monthly income per employed person required to maintain basic standard of living	(A1) x (D)
	(A)	(A)=A1	(B)	(C)	(D)=(B)/(C)	
2	25.7%	32%	\$7,307	1.08	\$6765.7	\$2,165.0
3	24.4%	30.4%	\$9,505	1.56	\$6,092.9	\$1,852.3
4	21.4%	26.7%	\$11,194	1.94	\$5,770.1	\$1,540.6
5	8.7%	10.8%	\$13,069	2.26	\$5,782.7	\$624.5
<b>Overall average monthly CSSA payment (E)</b>						<b>\$6,182.4</b>
<b>Average hourly rate = (E)/26 days/8 hours</b>						<b>\$29.7</b>

<sup>6</sup> Census and Statistic Department(2011)

<sup>7</sup> According to the figures from Social Welfare Department which was used to excluded singleton and household with more than 5 members

<sup>8</sup> The figures are calculated according to the recent adjustment of standard rate by 5.2% under CSSA scheme from February 2012 onwards

<sup>9</sup> Figures are from the General Household Survey, Q3 2011.