We want everybody to be working above the line

Canadian Living Wage Framework

A NATIONAL METHODOLOGY FOR CALCULATING THE LIVING WAGE IN YOUR COMMUNITY

Over the past few years, public and private sector employers and municipalities across Canada have been working toward adopting living wage policies. These leaders identified the value of developing a **National Living Wage Framework** which includes a consistent living wage definition, calculation methodology and strategy for recognizing corporate and community leadership who commit to pass a living wage policy. This **National Living Wage Framework** provides a definition, methodology, principles that these leaders hope that all communities involved in the living wage movement in Canada will adopt.

Living Wage – Definition

A living wage is not the same as the minimum wage, which is the legal minimum all employers must pay. The living wage sets a higher test — a living wage reflects what earners in a family need to bring home, based on the actual costs of living in a specific community. The living wage is a call to private and public sector employers to pay wages to both direct and contract employees sufficient to provide the basics to families with children.

The living wage is calculated as the hourly rate at which a household can meet its basic needs, once government transfers have been added to the family's income (such as the Universal Child Care Benefit) and deductions have been subtracted (such as income taxes and Employment Insurance premiums).

The living wage gets families out of severe financial stress by lifting them out of poverty and providing a basic level of economic security. But it is also a conservative, bare bones budget without the extras many Canadians take for granted.

The living wage calculation is based on the needs of two-parent families with young children, but would also support a family throughout the life cycle so that young adults are not discouraged from having children and older workers have some extra income as they age. Experience has shown that the rate is not significantly different for individuals without dependents or a spouse.

One important dimension of the living wage concept is its ability to integrate the role of social provision and public policy directly into the calculation. The greater is the income support and services provided through public policy (such as public health care, extensive and subsidized public transit, public child care services and so on), the lower is the required wage that must be earned privately in order for a family to attain a minimal threshold of living standards. The same is true of the operation of the tax and transfer system: the more generous, for example, are fiscal supports provided to families with children (through child tax credits or other policies), the lower is the private wage that parents must earn in order to support their families at a decent, minimal standard of living. This ability to expose and analyze the interaction between labour market practices and public and social policy levers is a major strength of the living wage concept.
For more information on the rationale behind the definition, the methodology or the principles read this full report from the Canadian Centre for Policy Alternatives:

http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC_Office_Pubs/bc_2008/ccpa_bc_living_wage_2008.pdf

We want everybody to be working above the line

Canadian Living Wage Framework

A NATIONAL METHODOLOGY FOR CALCULATING THE LIVING WAGE IN YOUR COMMUNITY

Benefits of National Consistency

- A national living wage method which standardizes the calculation allows living wage estimates to be meaningfully compared between different communities (since they will reflect real differences in costs or standards between communities, rather than methodological differences).
- It increases the credibility and consistency in approaches to policy-makers and employers (and eliminates the possibility that those resistant to the living wage would "play off" competing living wage estimates against each other).
- It allows employers who operate in multiple jurisdictions more certainty that, were they to ascribe to a living wage benchmark in their compensation practices, that benchmark would be meaningfully and consistently applied in each location. Without that consistency, a multi-jurisdiction employer will be more reluctant to commit to a living wage policy, not knowing exactly what criteria and methodology would be utilized in the calculation for any specific jurisdiction.

In living wage research published in Canada in recent years (including the numerous reports prepared by various offices of the Canadian Centre for Policy Alternatives), a broad consensus has emerged around several of the basic components of the methodology for measuring living wages. These common features include:

- Family structure (usually assumed to reflect two adults and two children)
- Work patterns (usually assumed to entail full-time year-round work by both parents)
- Tax and transfer integration (in which the impact of fiscal policy levers is integrated directly into the calculation, thereby connecting the after-tax-and-transfer income requirement of the family back to the estimated required pre-tax living wage)
- The broad dimensions of the consumption bundle which is assumed to be necessary for a minimal life

Recognizing Provincial Calculation Variations

The tangible benefit of standardizing a living wage methodology for all of Canada is that it serves as a useful guide for employers with offices in multiple provinces. It is, however, important to build into the methodology for calculating a living wage enough flexibility to incorporate provincial and municipal differences in the actual cost of living. For instance, sales and income tax rates differ among provinces. Tax credits and child tax benefits also differ among provinces. These differences can affect the final outcome of a local living wage calculation. The BC living wage methodology guide and excel spread sheet are a helpful first start. We also recommend a local committee be struck to determine if modifications are needed to some calculations, to better reflect local realities.

National Living Wage Framework Principles

Organizations/Communities that sign-on to the National Framework for a Living Wage agree to adhere to the following principles and methodology when calculating a Living Wage and certifying Living Wage Employers in their community.

A living wage:

- enables working families to have sufficient income to cover reasonable costs;
- promotes social inclusion;
- supports healthy child development principles;
- ensures that families are not under severe financial stress;
- is a conservative, reasonable estimate;
- engenders significant and wide ranging community support; and
- is a vehicle for promoting the benefits of social programs such as childcare

Canadian Living Wage Framework

A NATIONAL METHODOLOGY FOR CALCULATING THE LIVING WAGE IN YOUR COMMUNITY

Assumptions and Methodology for Calculating a Living Wage

The National Framework for a Living Wage calculates a living wage that would allow two income earners to support a family of four. This methodology assumes the following scenario:

- A healthy family of 4 with 2 children (aged 4 and 7)
- 1 child in full-time daycare, 1 in before- and after-school care
- 70 hours of employment between two parents, with each parent working 35 hours per week
- One parent taking evening courses at a local college to improve employment capacity
- Costs of living including transportation, food, rental housing, clothing, childcare, medical expenses and other
- Inclusion of tax credits, returns and government benefits; namely child tax benefits.

Thus, the living wage is the hourly rate of pay at which a household can meet its expenses once government transfers have been added and government deductions from wages and government taxes have been subtracted.

Household expenses are sourced from the Statistics Canada's database that feeds into the Market Basket Measure, while childcare, educational expenses and part of the transportation expenses are sourced locally. Several of the MBM numbers may also be replaced with more local numbers to better reflect the local context – for example, the cost of housing is available by city/town through the Canada Housing and Mortgage Corporation (CMHC).

While the methodology accounts for a range of costs, taxes and benefits experienced by a family, it is worth mentioning that it does not account for:

- Credit card, loan or other debt/interest payments;
- Savings for retirement;
- Owning a home;
- Savings for children's future education[1];
- Anything beyond minimal recreation, entertainment and holidays,
- Costs of caring for a disabled, seriously ill, or elderly family member; or
- Anything other than the smallest cushion for emergencies or hard times. (CCPA, 2009)

The methodology is popular because it is sensitive to changes in the market and in government policy that affect people's incomes. In doing so, it recognizes that not all of the onus should be on employers when it comes to ensuring the well-being of citizens, but that governments and communities also play a role. As well as being sound methodologically, this fair and balanced approach is a significant attribute in communications and marketing.

[1] However, childcare is accounted for, which is not a perpetual expense over the lifetime of a family, when children are older. We can thus assume that this sum could be saved for children's post-secondary education after childcare is no longer necessary.

Canadian Living Wage Framework

A NATIONAL METHODOLOGY FOR CALCULATING THE LIVING WAGE IN YOUR COMMUNITY

It is also important to re-iterate that the methodology does not account for those who cannot work 35 hours/week. Thus, it is important that our safety nets, such as provincial disability supports and national child tax benefits, strive to make up the difference. The methodology is also biased towards a family of 4 with young children, so it will be important to keep track of the costs and benefits experienced by other family types, and ensure that the Living Wage among other family types do not diverge substantially. Experience has shown that the living wage for this family type is not substantially different from other family types, but it is important to periodically review this. In terms of the future direction of the campaign it is important to recognize that any methodological changes in the calculation should be undertaken within the National Living Wage Framework for Canada. It is recommended that recalculating the living wage for your community take place annually in April.

Updating the Living Wage Calculation

It is important to make provision to update any local Living Wage calculation on a regular basis, preferably every year. Having an the Living Wage figure re-calculated every year keeps the number current, accurate and legitimate as it this takes account of living expense changes and changes to government transfers and deductions, as well as new government social policies that may affect the expense items in the calculation. Agreeing a set time of year to publicly announce the re-calculated living wage number (that preferably corresponds with other communities) is also important in providing a consistent approach to potential partners and the wider public.

Basic Living Wage Formula Calculation:

Annual Family Expenses	=	**Income from Employment (Living Wage)**	+	**Income from Government Transfers:** CCTB, UCCB, GST, Child Care Subsidy	−	**EI Premiums** **CPP Premiums** **Federal Taxes** **Provincial Taxes**

Basic Living Wage Formula Calculation:

Food	**Clothing & Footwear**	**Shelter**
Childcare	**Transportation**	**Other**
Medical Expenses	**Parent Education**	**Contingency Amount**

Employer Certification

A 'Living Wage Employer Certification Process' certifies employers (both public and private) that commit to pay their staff and contracted service staff a Living Wage based on the locally calculated rate. The following general conditions apply to certify Living Wage Employers:

- All direct staff will be paid a locally calculated living wage
- A legally binding contract clause will be inserted into all future/renewed service contracts to ensure that all contracted service workers are paid the living wage
- In assessing an employer's suitability, account is taken of employee benefits and employee commission/tips
- Certification is periodically reviewed when changes are made to the Living Wage rate

There are a number of certification models that operate in Canada at the moment and they differ slightly in terms how they implement the above conditions. For example there are different definitions of applicable service contracts and unique ways to calculate benefits contributions.

The development of an agreed national criteria for the certification of Living Wage Employers throughout Canada is very important, as a number of existing and potential Living Wage employers operate across Canada and there is no way of certifying them on a national basis at the moment. Moreover having similar branding and messaging is important in building the authority and public recognition of the certification process.

The National Living Wage Framework is committed to working with existing Living Wage Certification processes to develop a national Living Wage Employer Certification Criteria that can be implemented locally by communities.