

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 273,800¹ 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

¹ 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 187,600² 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

² 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.

reported that they were deprived of the paid rest days they formerly enjoyed. Before the wage policy changed, 98.6% of respondents had paid rest days. Of these, 3.8% had one to two days per month; 91.6% had three to four days; 2.1% had five to six days; and 1.1% had more than 6 paid rest days at the time of the T1 survey. By T2, only 52% of respondents continued to enjoy this benefit. In other words, **46.6% of respondents lost their paid rest days.**

Among those who retained paid rest days, **only 35.1% had three to four days per month, a dramatic drop from the 91.6% who previously enjoyed this benefit.**

In T1, 73.6% of respondents had paid meal breaks, but by T2 only 58.6% retained this benefit. Thus **15.0% of respondents lost their paid meal breaks.**

1.5 Over half reported a decrease in individual income when the loss of paid rest days and meal breaks were considered.

Among respondents, 24.4% remained in the same job with little change in their working hours (plus or minus 20 hours in a month), and enjoyed an increase in individual income. But **55.8% of them reported a drop in individual income when the loss of benefits, including paid rest days and paid meal breaks, were given monetary value and factored in.** (See Table 4 or Report 4.2.5)

The findings showed that the minimum wage nominally increased the monthly individual income of most of the low-paid workers. However, the loss of benefits meant that a majority of workers received less than the expected gain from the implementation of the minimum wage.

2. Minimum Wage as an incentive to give up Comprehensive Social Security Assistance

2.1 Some CSSA recipients (42%) expressed willingness to quit the welfare scheme.

Among respondents, about 7.6% were recipients of CSSA. Using a Likert scale of 10, with “1” denoting “very ineffective” and “10” denoting “very effective”, they were asked if the minimum wage was an effective incentive for them to withdraw from CSSA. **In T2, 42% of CSSA recipients gave the minimum wage a score of 6 or above as an effective motivator for them to quit the welfare scheme.** The mean score was 5.84 in T2, and 3.92 in T1. This indicates that CSSA recipients viewed the minimum wage in a positive light. (See Table 5 or Report 6.1.6)

2.2 Higher wage did not result in more work hours for CSSA recipients.

However, only 12.5% of the CSSA recipients had actually increased their working hours, while **81.9% reported that their working hours remained unchanged in T2.** (See Table 6 or Report 6.1.5)

Under the existing CSSA system of “disregarded earnings”, a working adult’s total earnings will be added to the family income only if he or she earns \$800 or below. If earnings exceed \$4,200, only \$2,500 will be “disregarded” under the welfare scheme, and the additional amount will be deducted from CSSA payments. According to our study, the average hourly wage of respondents was \$20.9 in T1, before the minimum wage went into effect. (See Report 4.2.4) That means a CSSA recipient could enjoy the maximum level of disregarded earnings (\$2,500) if he worked about 200 hours per month (\$4200/\$20.9) before the launch of minimum wage. However, with the statutory \$28 hourly wage, the extra income would be deducted from his CSSA payments, thus serving as a disincentive to work.

3. Low-income families still suffer deprivation despite the minimum wage

Poverty comprises many dimensions. Apart from income, deprivation is an indicator to measure poverty levels. In our research, “deprivation” was defined as the status of a household that cannot afford three or more items considered essential by most Hong Kong residents (see 5.1.2 for the list of items), taking into account the household composition and total household income and calculated according to a modified Organization for Economic Co-operation and Development (OECD) equivalence scale. (See Report 5.1.6 and 5.1.7)

3.1 Among respondents with increased household income, 40.5% were still living in deprivation after the introduction of the minimum wage

Overall, about 45.3% of respondents, representing 84,996 low-income workers' households, were still living in deprivation. (See Table 7 or Report 5.1.8)

Among the 69.9% of low-income workers' households whose income had increased, 40.5%, representing 53,134 households, were still considered deprived (lacking three or more essential items), and 10% were considered severely deprived (lacking eight or more essential items). (See Table 8 or Report 5.1.9)

3.2 Low-income families with children were most deprived.

Our survey results revealed that deprivation was highest among households with children aged 12 or below. Only 40.7% of families without children in this age range experienced deprivation, but among families with two children aged 12 or below, 59.1% experienced deprivation. (See Table 9 or Report 5.1.11)

Moreover, in 22.3% of the families with young children, the children were left alone at home after school while their parents worked. (See Table 10 or Report 5.3.4) This suggests a great need for childcare support among low-income families.

3.3 Deprivation fell at wage levels above \$32. (See Table 11 or Report 5.1.13)

In order to study the level of deprivation among households with workers paid different hourly wages, we calculated “the mean deprivation score”, defined as the average number of essential items that families lacked because they could not afford them. This analysis revealed that the mean deprivation score **was above 3 when the hourly wage was below \$32. This reflects a serious level of deprivation among households of workers with hourly wages less than \$32.** Among those with hourly wages between \$28-\$28.9 and \$30-\$31.9, the mean deprivation scores were 3.26 and 3.76 respectively.

However, the mean deprivation score fell under 3 as the hourly wage rose above \$32. For those with hourly wages between \$32-\$33.9 and \$34 or above, the mean deprivation scores were 2.78 and 2.42 respectively. This indicated that deprivation was higher among households with lower-paid workers, and **fell substantially when workers' wages rose to \$32 or above.**

Results: Analysis and discussion

According to our study, the Statutory Minimum Wage has brought some concrete benefits to low-paid workers. Monthly household income increased for 69.9% of low-income workers' families, and 72.6% of low-paid workers noted an increase in individual monthly income, with the average hourly wage rising from \$20.9 to \$29.1. In addition, some CSSA recipients expressed a willingness to give up their welfare benefits after the implementation

of the minimum wage.

However, it was also noted that some employers have taken measures to offset the cost of paying their workers higher wages. On average, working hours were reduced from 250.1 in March-April 2011 to 236.2 in November 2011-January 2012. Also, 46.6% of low-paid workers were deprived of paid rest days and 15% reported that their paid meal breaks were eliminated after the minimum wage law took effect. These unfair practices impacted more than one-fifth of low-income workers. In addition, 2.6% received no pay increase of their individual income, and 19.6% were worse off than before. A surprising 27.4% of respondents, representing 51,472 low-income workers' families, reported a drop in household income after the minimum wage law took effect.

It is also worth noting that 40.5% of families that experienced a rise in monthly household income were still living in deprivation. This indicates that the present hourly minimum wage of \$28 is not enough to eliminate deprivation, and that the implementation of the Statutory Minimum Wage Ordinance alone is not adequate to free low-income workers' households from the poverty trap.

Oxfam Hong Kong's policy recommendations

Oxfam views livelihood security as a basic right. Workers should be fairly rewarded so they can support themselves and their families, and also share the fruits of economic growth and development. This is essential in a fair society and the cornerstone of sustainable development. The objective of minimum wage legislation is to ensure that the least advantaged workers have a decent wage. The spirit of this law is violated if low-paid workers receive no pay increase, or are even worse off than before due to employers' unfair practices. In order to alleviate poverty, Oxfam Hong Kong recommends that the Hong Kong SAR Government urgently consider the following policy suggestions:

Statutory Minimum Wage:

- 1. The Statutory Minimum Wage should be subject to annual review.**
The government should review the Statutory Minimum Wage on a yearly basis and adjust it to reflect inflation and social changes.
- 2. The Statutory Minimum Wage should provide CSSA recipients with an incentive to work, and should be set with regard to deprivation indicators.**
Decisions on setting the minimum wage should be informed with reference to CSSA requirements and benefits. The benchmark should be high enough to provide an incentive for CSSA recipients to work. Moreover, the wage should be set and updated with reference to the actual living standards of low-income workers and their families as measured against deprivation indicators.

According to government figures, the current \$28 statutory hourly minimum wage is lower than the income provided by CSSA, which is equivalent to an hourly wage of \$29.7 for a full-time worker. (See Table 12). Our survey showed that mean deprivation scores fell substantially with hourly wage rates at \$32 or above. We therefore recommend that the Minimum Wage Commission and Government consider reviewing the minimum wage with reference to CSSA benefits and deprivation indicators.

- 3. Workers paid the Statutory Minimum Wage should not be deprived of other benefits.**
The Government and employers must ensure that employees' remuneration and benefits are not reduced with the implementation of the minimum wage. As the government requires its outsourcing contractors to pay their workers not less than the minimum wage plus one paid rest day per week, we encourage private enterprises to follow the same practice to enhance the well-being of low-paid employees.

In the long run, the Government should explore the feasibility of revising the Employment

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%³. If a three-member family is composed of two working adults and one child, the asset limit would be \$49,500⁴. According to Government figures, the average monthly personal income of a low-income worker on CSSA is \$5,377⁵. 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.

³ Social Welfare Department, 2010-11

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

⁵ Social Welfare Department, 2011-12

Graph 1: Distribution of hourly wage of low income workers

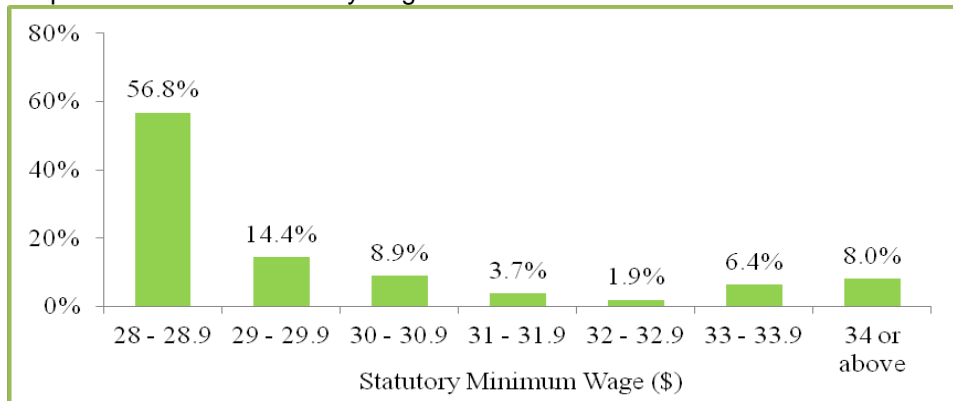


Table 1: Change in household income of the low-income workers' families

Change in household income in T2	Present no. of low income worker's families	%
Household income increased	131,125	69.9
Household income decreased	51,472	27.4
No information provided	5,003	2.7
Total	187,600	100.0

Table 2: Change in individual income (wage) of the low-income workers

Change in individual income in T2	Present no. of low income workers	%
Increase of wages	110,157	72.6
Wages unchanged	3,868	2.6
Decrease of wages	29,772	19.6
No information provided	7,895	5.2
Total (Employed in T1 and T2)	151,693	100.0

Table 3: Change of employment and benefit package of low income workers

Change of employment and benefit package	T1	T2	p-value (t-test or χ^2)
Average hourly wage (SMW)	\$20.9	\$29.1	.000
Average monthly working hours	250.1	236.2	.007
Paid meal break			.008
No	26.4	41.4	
Yes	73.6	58.6	
Paid rest days			.000
No	1.4	48.0	
Yes	98.6	52.0	
1-2 days	3.8	11.6	
3-4 days	91.6	35.1	
5-6 days	2.1	3.4	
More than 6 days	1.1	1.9	

Table 4: The real change of individual income of low income workers taking into account of their former benefit package in money term

	Total (%)
Better pay off	38.6
Remained unchanged	5.7
Worse pay off	55.8
<i>\$1 to <\$500</i>	<i>10.1</i>
<i>\$500 to <\$1000</i>	<i>16.8</i>
<i>\$1000 to <\$1500</i>	<i>7.4</i>
<i>\$1500 to <\$2000</i>	<i>7.2</i>
<i>\$2000 or more</i>	<i>14.3</i>
Total	100.0

Table 5: Minimum wage as an incentive to motivate CSSA receiver to withdraw CSSA

Motivation to withdraw from CSSA	T1 (%)	T2 (%)
No motivation	22.8	8.2
2	14.3	3.5
3	4.2	2.0
4	2.1	1.5
5	28.1	37.9
6	8.0	11.7
7	10.1	6.4
8	2.1	5.5
9	2.1	4.1
Very motivation	0.0	14.3
Refuse to answer	6.3	5.0
Mean score (p-value of t-test =0.000)	3.92	5.84

Table 6: The change of working hours of CSSA receivers

Change in work hours among CSSA recipients	T1 (%)	T2 (%)
Increase the working hours	25.1	12.5
Reduce the working hours	23.2	2.0
Remain unchanged	49.6	81.9
Refuse to answer	2.1	3.5
Total	100.0	100.0

Table 7: Number of low income workers' families in deprivation

Number of items lacking because they could not afford	Total (%)
0	25.7
1 or more	74.3
2 or more	54.2
3 or more	45.3
4 or more	36.5
5 or more	31.4
6 or more	23.1
7 or more	16.8
8 or more	11.7
Mean deprivation score	3.23

Table 8: Number of low income workers' families with increased income but still in deprivation

Number of items lacking because they could not afford	Household income increased after SMW	
	Present no. of low income worker's families (Total =131,125)	%
0	35,550	27.1
1 or more	95,576	72.9
2 or more	65,519	50.0
3 or more	53,134	40.5
4 or more	42,626	32.5
5 or more	36,123	27.5
6 or more	26,559	20.3
7 or more	18,407	14.0
8 or more	13,154	10.0
Mean deprivation score	-	2.90

Table 9: Deprivation among low income workers' families with children

Number of items lacking because they could not afford	Total (%)	Had children aged 12 or below	Did not have children aged
0	25.7	18.9	28.0
1 or more	74.3	81.1	72.0
2 or more	54.2	64.2	50.8
3 or more	45.3	58.7	40.7
4 or more	36.5	48.6	32.5
5 or more	31.4	42.8	27.5
6 or more	23.1	33.0	19.7
7 or more	16.8	25.7	13.8
8 or more	11.7	20.4	8.8

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
\$32 - 33.9	2.78
\$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 ⁶	Adjusted per cent of households of each size ⁷	Average monthly CSSA payment to families of corresponding size ⁸ (Basic standard of living)	Average number of employed people in household ⁹	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
Overall average monthly CSSA payment (E)						\$6,182.4
Average hourly rate = (E)/26 days/8 hours						\$29.7

⁶ Census and Statistic Department(2011)

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

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

⁹ Figures are from the General Household Survey, Q3 2011.