

# YOUTH RATES: THE NATIONAL MINIMUM WAGE FOR YOUNGER WORKERS

## WHY ARE YOUNGER WORKERS PAID LESS?

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### What is the National Minimum Wage?

First introduced in 1999, the National Minimum Wage (NMW) is the **minimum pay per hour** almost all workers in the UK are entitled to. The NMW is set by government. The government reviews the NMW rates every year, advised by an independent body called the [Low Pay Commission](#) (LPC). The LPC do many things to inform their advice to government, including:

- carrying out research and consultation, and commissioning research projects
- analysing relevant data
- carrying out surveys of firms in low-paying sectors
- consulting with employers, workers and their representatives
- making fact-finding visits throughout the UK to meet employers, employees and representative organisations.

### What are ‘Youth Rates’?

Since the NMW was first introduced lower rates of pay have always been set for younger workers. These are called the ‘**Youth Rates**’. Currently employers have to pay workers aged 25 years and older at least the **National Living Wage** (£8.21), while **lower rates can be paid to those aged 21-24 (£7.70), 18-20 (£6.15), 16-17 year olds (£4.35), and apprentices (£3.90).**

Year	25 and over	21-24	18-20	16-17	Apprentice
April 2019	£8.21	£7.70	£6.15	£4.35	£3.90

## Why are younger workers paid less?

When advising government, the LPC's main objective in setting the [Youth Rates](#) is:

*“to ensure that the NMW’s structure and the level of the youth rates enables young people to make a successful transition from education to employment, and to access roles which provide them with the work experience valued by employers.”*

LPC's advice reflects research that suggests younger workers typically occupy a **more vulnerable position in the labour market**, and their **employment is at greater risk** than older workers to changes in the minimum wage. 'Youth Rates' have therefore been thought of as **protecting youth jobs**, by avoiding risks such as employers recruiting older and often more experienced workers at no additional wage costs.

Lower rates of pay are also thought of as **promoting the long-term labour market position of young workers** by ensuring they are not encouraged to leave education or training too early, and by encouraging employers to offer younger workers training on the job in lieu of pay to acquire skills and experience. Lower rates also reflect evidence that **younger workers are more likely to be unemployed**, and that spells of unemployment can be more damaging for young workers with **long-term 'scarring effects' on their future earning and employment**.

One of the main concerns about setting the NMW is that a high minimum wage could damage job growth and increase unemployment. The LPC therefore try **to set the minimum wage at a level that does not reduce jobs**, but at the same time **high enough to prevent worker exploitation**.

## Are younger workers always paid the 'Youth Rates'?

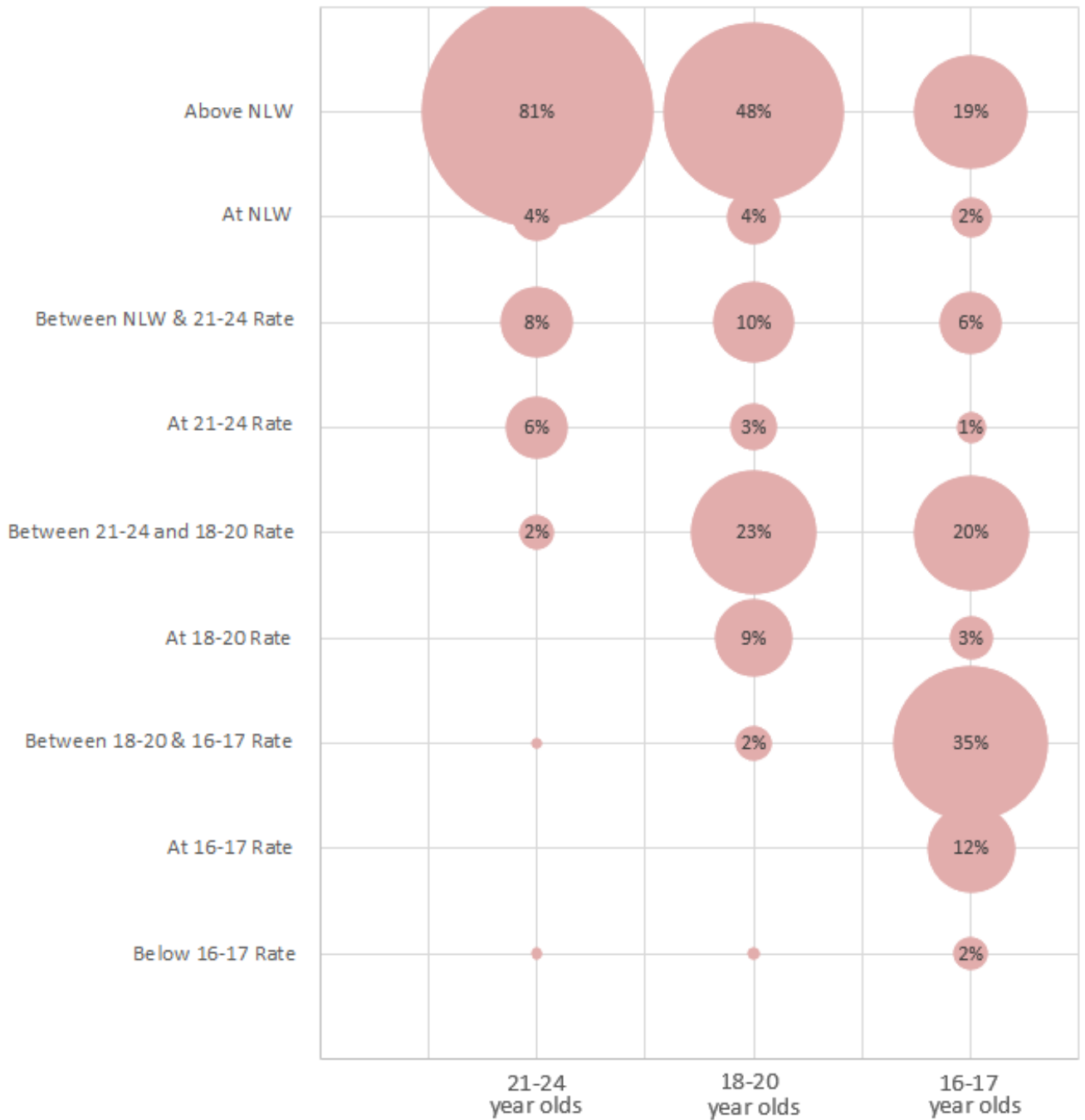
Not all younger workers are paid the Youth Rates. In fact, as shown by Figure 1, data suggest **fewer than one in ten younger workers are paid at their respective Youth Rate**. More specifically, data suggests:

- only 6% of jobs held by 21-24 year olds (115,000 jobs) were paid at 21-24 Year Old Rate
- only 9% of jobs held by 18-20 year olds (85,000 jobs) were paid at 18-20 Year Old Rate
- only 12% of jobs held by 16-17 year olds (34,000 jobs) were paid at 16-17 Year Old Rate

However, just because younger workers are being paid more than their respective Youth Rate, it does not mean they are all being paid the National Living Wage. As Figure 1 shows:

- around 79% of jobs held by 16-17 year olds were paid below the National Living Wage
- around 48% of jobs held by 18-20 year olds were paid below the National Living Wage
- around 15% of jobs held by 21-24 year olds were paid below the National Living Wage

**Figure 1: Distribution of hourly pay, proportion of jobs held by age group, 2017-18.**



Source: Data based on LPC estimates using ASHE. LPC 2018 report.

## The Youth Rates are changing...

Recently, the LPC [advised](#) the Government to **gradually lower the age of eligibility of the National Living Wage from 25 to 21**. In their advice the LPC argued that **21 is a more ‘natural’ cut-off point** as 21-24 year olds on most measures – such as educational participation, unemployment rates as well as where and how they work – are very similar. Another important reason was fairness, as 21-24 year olds in low-paid sectors generally do the same work, with only small differences in experiences and productivity.

LPC recommended this change was introduced in **two-step approach**, in which the age of eligibility is lowered to 23 by April 2021, along with a commitment to reduce the threshold to 21 at a later date, following a review in October 2022.

### *Current age structure (April 2019)*

25+	21-24	18-20	16-17	Apprentice
National Living Wage				

### *Next age structure (April 2021)*

23+	21-22	18-20	16-17	Apprentice
National Living Wage				

### *Final age structure (timetable will be set following review in October 2022)*

21+	18-20	16-17	Apprentice
National Living Wage			

This proposed policy change would affect around 15% of jobs held by 21-24 year-olds, which amounts to almost **300,000 jobs**.

In October, during the Conservative Party conference the Chancellor, Sajid Javid, said the UK Government would accept the LPC advice to [lower the age of eligibility for the NLW from 25 to 21](#). The Labour Party on the other hand has pledged to scrap the Youth Rates altogether, likening their use as [discrimination against young people](#). The National Minimum Wage Youth Rates are therefore likely going to be a key policy battleground in the upcoming 2019 General Election.

## Notes

This briefing is based on a NIESR research report for the Low Pay Commission on employers’ pay-setting for young people, and their use of the Youth Rates. The full report includes a detailed review of the policies around training, education and support to work for young people, as well our research findings on how employers set pay for young workers.

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