



LIVING WAGE FOR US, Inc.

Total Remuneration Assessment Principles and Methodology

The following is a guide to how Living Wage For Us values bonuses, benefits, and different wages to produce an accurate understanding of the gap to a living wage. It is an approach based on principles as we explain throughout this document. This document will help you understand what information you would need to gather and how we would approach valuing that information when conducting a wage gap assessment to the living wage.

Wages

Salary
Hourly
Tips/Commissions
Overtime
Piece Rate



Guiding Principles:

Wages must be dependable, so that workers can budget to pay their monthly expenses. And a living wage, according to ILO definitions, should be "calculated for the **work performed during the normal hours of work**".

What this means for different wage structures:

Salary - A salary can be converted to a comparable hourly wage by dividing the salary by the weekly work hours (40 for full-time) and then dividing that figure by 52. This is **dependable income during regular hours of work**.

Hourly Wage - Hourly wages directly translate to a living wage as the income from hourly wages is **dependable** and covers **work performed in a typical work week**.

Tips/Commissions - Tips and commissions can be counted toward a living wage, however, the portion of typical tips and commissions necessary to achieve a living wage must be guaranteed if these wages are counted so that the income is **dependable for workers**. Typically an employer would divide total tips per employee over the period of a month by the number of hours worked by that employee during the same period to ensure that the amount necessary to reach a living wage in addition to base wage and benefits was achieved.

Overtime - Overtime pay cannot be accounted for in living wage gap analysis and total remuneration assessments because overtime work is not **performed during the normal hours of work**. As such, we will never ask for information on what workers earn in overtime hours and ask that regular work hours are exclusively considered.

Piece Rate Pay - Piece rate pay can be valued against a living wage assuming the employer tracks the total amount earned over a given time frame (usually 1 month) as well as the total number of hours worked to earn that amount of money from piece rates during that period. The pay a worker earned over a month is divided by the total hours worked for the month to produce an hourly rate of pay. However, even if a worker worked 50 hours per week, no more than 40 hours can be counted to ensure that only **work performed in a typical work week** is counted toward living wage. This should be conducted throughout the year to ensure an ongoing living wage that is **dependable**.



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Bonuses

Variable Bonuses

Secured Bonuses

Performance/Spot Bonuses



Guiding Principles:

Bonuses must be dependable, so that workers can budget to pay their monthly expenses. They must also be **earned within the year being assessed**.

What this means for different bonus structures:

Variable Bonuses - These bonuses can vary in form but are usually marked by some uncertainty in terms of the scale of the bonus. Those that are based on clear performance targets and that are variable based on different performance levels (wherein a worker always receives some type of bonus with the amount being variable) are counted toward the living wage at either the average level achieved by that worker over three years, or half of the full bonus target if 3 years of experience does not exist. This ensures that the amount counted is likely to be paid and in alignment with what the worker plans on earning to budget toward bills. Thus ensuring that the bonus is **dependable** for the worker. If the expected bonus for the current year is lower than the average over three years, then the amount that is counted cannot exceed the planned bonus for the current year even if that higher average suggests a higher amount. These bonuses often include profit sharing structures and performance based bonus targets that are transparent to workers and thus can be part of a worker's overall budgeting to pay life expenses. But where the exact amount to be received is not set and is contingent on various factors.

Secured Bonuses - Some bonuses are set and guaranteed every year. For example, retention bonuses (available within the year of assessment), annual bonuses, and holiday bonuses that are promised and not variable. Any bonus that is planned and guaranteed for payment may be accounted for in their entirety toward a living wage. This is because they meet the principle of being **dependable for workers**. But again, a bonus for staying at one employer for 5 years cannot be amortized, but can only be counted in the year that employee would actually earn the bonus to meet the principle of being **earned within the year being assessed against a living wage**.

Performance/Spot Bonuses - This covers a specific type of performance bonus which might be awarded similar to a spot bonus to individuals selected, often by management. In this type of structure, workers do not know in advance if they will earn a bonus at all and are not necessarily receiving the bonus every year. In this situation, the bonus cannot be counted toward a living wage because the payment is **not dependable** and thus a worker cannot budget or plan their lives depending on this income. The experience of prior years also has **no influence on the ability of a worker to continue to obtain the bonus in the year assessed**.

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Health Benefits

Health Insurance
ICHRA/QSEHRA
Medical FSA/HRA Plans
Other Wellness Benefits



Guiding Principles:

Benefits must **reduce a cost of living accounted for in the living wage estimate** and should be valued **based on the amount of savings to worker** that benefit provides from a category of cost in the living wage. Additionally, benefits **must not severely restrict worker choice**.

All benefits provided to workers and accounted toward a living wage must meet the guiding principles for bonuses and wages, **AND** the guiding principles for benefits stated here. Benefits must be offered but do not have to be used to count in respect of worker choice.

What this means for different health related benefit structures:

Health Insurance - Health insurance benefits may be accounted for toward a living wage as they **reduce a cost of living accounted for in the living wage estimate**. To value health insurance, LW4US collects health insurance costs in every commuting zone for both family plans and individual plans at the silver level on the ACA marketplace. We then assess the value of health insurance that an employer supplies **based on the savings to worker**. We do **not** examine the cost to employer as this does **not represent the savings to worker** off open market costs used in living wage estimates. Rather, we examine the amount that a worker must pay to access a silver level health insurance plan through their employer. This is the share paid by the worker, not the employer. We then compare the amount a worker must pay to access an individual or family level health insurance plan through their employer to the amount that they would pay on the open market and credit any savings that the employer plan provides to workers. We assess the most effective silver level plan offered by an employer to align with the costs collected and included in a living wage, which represent a low cost silver level plan. We also assess the tax savings associated with the employer plan (these are pre-tax benefits) and credit those additional tax savings to the living wage achievement since these represent additional **savings to workers** off the tax burden **costs included in a living wage estimate**. Since health insurance does not typically dictate which doctor a worker must see, it does **not restrict worker choice** and can be credited.

ICHRA/QSEHRA - These benefits provide reimbursement for premiums paid on health insurance plans purchased on the open market. They **reduce a cost of living accounted for in living wage estimates**, and can be counted toward living wage achievement. We credit these plans to account for **savings to worker** by subtracting the amount that employers provide for premium reimbursements from data gathered on the non-subsidized cost of a silver level health insurance plan, in the worker commuting zone, on the open market. Reimbursements **do not restrict worker choice** and thus are not limited. Tax savings are then accounted for in the same fashion as they are for health insurance plans as these are pre-tax benefits.

Medical FSA/HRA - When an employer provides a medical FSA or HSA, even without contributions, the associated tax savings, up to the level of tax burden that is included in the living wage estimate for out of pocket healthcare costs, can be credited toward living wage payment. In this case a **cost of living included in the living wage estimate** is being reduced and measured in terms of **savings to worker** while **not restricting worker choice**. Additionally, any employer contributions to a medical FSA may also be credited to a living wage up to the out of pocket cost amount included in the specific commuting zone of that worker **in the living wage estimate**.

Other Wellness Benefits - Other wellness benefits may be examined on a case by case basis according to whether they meet the principles described here. A free gym membership for example, would not be counted toward a living wage because it is **not included in a living wage estimate**.

Total Remuneration Assessment Principles and Methodology

Care Benefits

DCFSA

Childcare Reimbursement

Childcare Provision

Retirement/Eldercare



Guiding Principles:

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All benefits provided to workers and accounted toward a living wage must meet the guiding principles for bonuses and wages, **AND** the guiding principles for benefits stated here. Benefits must be offered but do not have to be used to count in respect of worker choice.

What this means for different care related benefit structures:

Dependent Care FSA - When an employer provides a dependent care FSA, even without contributions, the associated tax savings, up to the level of tax burden that is included in the living wage estimate for childcare costs the maximum FSA savings would cover, can be credited toward living wage payment. In this case a **cost of living included in the living wage estimate** is being reduced and measured in terms of **savings to worker** while **not restricting worker choice**. Additionally, any employer contributions to a DCFSA may also be credited to a living wage up to the childcare cost amount included in the specific commuting zone of that worker **in the living wage estimate**.

Childcare Reimbursements - Childcare reimbursements follow the same rules and reasoning as childcare reimbursements delivered through a DCFSA but without calculation of the associated tax benefits since reimbursements that are not funneled through the DCFSA structure do **not represent tax savings to workers**.

Childcare Provision - Employers that provide free or reduced cost childcare either on-site or in partnership with a local childcare center **reduce a cost of living accounted for in the living wage estimate**. This benefit can be valued toward living wage payment. To value childcare provision based on the **savings to worker** we examine the cost to workers of accessing this benefit. We do not examine the cost to the employer as this does not represent the **savings to worker** off open market costs used in living wage estimates. Rather, we examine the amount that a worker must pay to access childcare through their employer's provision. If there is no cost to access, we credit according to the childcare costs **included in the living wage estimate** in the appropriate commuting zone. We also assess the tax savings associated with the provided childcare if this is a direct discount or free childcare rather than a reimbursement on taxed payments. Tax savings represent additional **savings to workers** off the tax burden costs **included in a living wage estimate**. However, this does restrict worker choice. Typically, benefits that **restrict worker choice** cannot be counted toward a living wage if they exceed 30% of total income in value.

Retirement/Eldercare - Retirement costs are currently **included in LW4US living wage estimates** and thus benefits covering these costs do provide savings to workers and can be counted toward living wage. Pension plans, 401k plans and other tax free retirement savings plans are credited according to the amount the employer contributes and the associated tax savings on that income and capped at the amount included in the living wage estimate and applicable tax savings on that figure to represent **savings to worker** off the living wage. It is essential that this benefit is vested in the year it is counted toward worker wages to ensure that these benefits are **earned during the year assessed**.

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Other Benefits

Meals
Housing
Transportation
Transportation FSA



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All benefits provided to workers and accounted toward a living wage must meet the guiding principles for bonuses and wages, **AND** the guiding principles for benefits stated here. Benefits must be offered but do not have to be used to count in respect of worker choice.

What this means for different other related benefit structures:

Meals - When an employer provides free meals to workers, the replacement cost of that meal is credited toward a living wage to represent **savings to workers** off a **cost included in the living wage estimate**. The replacement cost is based on the cost per meal **included in the living wage estimate**, not the cost to the employer of providing that meal. Since meals included in living wage estimates are typically meals from home as part of a low cost diet, the value is often lower than the market price that would be charged for that meal in a catering setting for example. Additionally, if subsidies for food are provided, for example, grocery discounts for workers at a grocery store, the percent subsidy or discount provided to workers may be credited as **savings off the total food costs in a living wage estimate**. If discounted individual meals are provided, the amount of savings that discount supplies off the cost of each meal in the living wage estimate is credited toward the living wage. If all meals are provided by the employer, this is a category that limits worker choice and although it may be credited, it should typically fall beneath the 30% cap along with other benefits that **limit worker choice**.

Housing - Housing subsidies or the provision of free housing for workers is credited toward a living wage if the housing meets the decency standards of housing **included in living wage estimates**. It is credited at the **rate of savings to workers** from housing costs **included in the living wage estimate** in the associated commuting zone. Tax savings represent additional **savings to workers** off the tax burden costs **included in a living wage estimate** when free or reduced cost housing is provided. However, this does **restrict worker choice**. Typically, benefits that **restrict worker choice** cannot be counted toward a living wage if they exceed 30% of total income in value.

Transportation - Employers that provide a car that can be used for personal and work trips and reimburse fuel costs can have this benefit credited at the level of transportation costs **included in the living wage estimate** in the associated commuting zone. In this case the full cost of transportation is **saved for the worker**. If in an area where public transport is highly utilized, the cost of public transport tickets may also be credited to the living wage assuming those passes can cover both work and personal transport needs. Partial transport benefits covering transport to and from work, parking fees, or any other applicable benefit that provides free or discounted transport costs are credited, but must be examined on a case by case basis to ensure credits applied properly represent **savings to worker**.

Transportation FSA - When an employer provides a transportation FSA, even without contributions, the associated tax savings, up to the level of tax burden that is included in the living wage estimate and covered as pre-tax dollars by the transportation FSA, can be credited toward living wage payment as it represents **savings to workers** and reduces a **cost included in the living wage estimate**. In this case a cost of living included in the living wage estimate is being reduced and measured in terms of **savings to worker** and this must be examined against whether qualified expenses are typical for a given area e.g. is public transport a viable option for workers. Any employer contributions to a Transportation FSA may also be credited to a living wage up to the maximum annual FSA contribution.