



Should your compensation philosophy include living wage?

Paying a living wage means employees earn enough income to meet basic needs, reducing the need for second and third jobs to supplement income. It is also a way employers demonstrate their commitment to DEI, as well as missions related social and economic equality.

Organizations have realized that people cannot operate effectively when in a state of persistent insecurity, and the current wage standards fall short of meeting the current needs of employees.

The national minimum wage was initially designed to provide a wage floor that protected workers and assured a measurable quality of life. It has not kept pace with inflation, however, and wages for many Americans have stagnated.

A living wage is a market-based approach to determine the minimum employment earnings necessary to meet basic needs. These minimums are intended to heighten living standards, improve life satisfaction, and create a more desirable place to work. Understanding what constitutes a living wage has profound effects on the well-being of employees and on the effectiveness of organizations.

Living wages are designed to:

- Align organization pay levels with mission and values - particularly for those focused on social and economic justice.
- Provide wage earners with an agreeable quality of life while providing some relief from financial insecurity.
- Allow wage earners and their families to be self-sufficient and increase the likelihood of their ability to afford higher education for their children.
- Enable wage earners to be more engaged in their community - studies have shown that employees with living wages tend to spend those wages locally.

The business case for a living wage is as straightforward as the ethical case. Employers who have instituted living wage programs foster a more inviting, people-centric workplace and experience a more committed workforce by acknowledging that people cannot operate effectively when in a state of constant need and financial insecurity.

Employers that institute a living wage can have a profound impact on their employees:

- Employees report being able to quit their second and third jobs.
- Studies show that modest increases in family income increase children's achievement scores and later earnings.^{1,2}
- People who are happier and satisfied with their lives are more effective at work; even modest salary increases in this population are shown to lower turnover and absenteeism.

SullivanCotter Can Help You Implement a Living Wage

You may still have a number of questions:

- What constitutes a living wage?
- How is a single living wage determined and set?
- How is the salary program adjusted to accommodate a new, higher minimum wage?
- Are there any unintended consequences or disruption to culture?

SullivanCotter has a propriety method for helping your organization answer each of these questions.

Our Approach

We work with our mission-based clients to design a living wage program that aligns with their inclusion and equity initiatives and supports the evolution of the program as their organizations evolve.

Leveraging unique insight into compensation design, we develop ways to meet the many work and home needs of employees while also meeting the financial aims of the organization.

Our phased approach includes utilizing data on local earnings and spending patterns associated with basic needs such as housing, food, and health care, estimating a living wage for different family configurations, and redesigning the organization's salary structure to accommodate the living wage program. We also assist with communications and implementation, as well provide ongoing support on an annual basis to revisit what's required for living wage.

Sources:

1. Smith, L. (2015). Reforming the Minimum Wage: Toward a Psychological Perspective. *American Psychologist*, 70 (6), 557-565.
2. Heckman, J. (2013, September 14). Lifelines for Poor Children. *The New York Times*. <https://archive.nytimes.com/opinionator.blogs.nytimes.com/2013/09/14/lifelines-for-poor-children/>



Questions? Contact us!

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