

Consultation response: Low Pay Commission consultation 2025

To: The Low Pay Commission

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF's guiding principle is that policy should be fair to all – the old, the young and those to come.

Introduction

The Intergenerational Foundation (IF) is grateful for the opportunity to respond to the Low Pay Commission's (LPC) consultation on National Minimum Wage (NMW) rates and National Living Wage (NLW) rates that will apply from April 2025. IF is supportive of the Low Pay Commission's plans to increase the NMW and NLW rates and is especially supportive of the intention to move towards lowering the NLW threshold to 18 years of age. IF believes that it is both morally and economically unjust that workers employed in the same role are paid unequal rates based on age alone.

The transition to NLW rates being made applicable to all legal adults should happen as quickly as possible. Many young people cannot afford to wait. Those aged 18–21 are the most likely to live in financial precarity and be food insecure. Our research shows that under-30s' households must dedicate 70% of their total expenditure to buying essentials, for the poorest under-30s it is 77% of their total expenditure. This is an increase of 16% and 21% respectively over the past two decades.¹ Meanwhile, there has been a dramatic rise in poverty levels for university students. As a result of rising living costs and a shortfall in

¹ Whelton, T (2024) *Blowing the Budget: Why the young have to spend more than the old on essentials*; Intergenerational Foundation: https://www.if.org.uk/wp-content/uploads/2024/11/Blowing_the_budget_FINAL_no_guides.pdf

student maintenance loan funding, increasingly full-time students have to work excessive hours at part-time jobs, often to the detriment of their degree and mental health.

The increase in the NLW in recent years has been a great success. For younger generations, who on average own fewer assets, are more likely to face unaffordable private rent and dedicate more of their income to essentials than any other age group, it has helped protect their living standards from falling even further. The Intergenerational Foundation supports the LPC's recommended increase to the NLW for 2026/27. However, it is intergenerationally unjust that 18–20 year-olds are not afforded the same protection. The NLW must be made applicable for these ages as quickly as possible.

Question 4 – At what level should the NLW be set from April 2026?

IF believes that the NLW should be updated to the LPC's central estimate of £12.65 so that it remains in line with the target of being equivalent to two-thirds of national median income.

Question 6 – Recent increases in the NLW have exceeded increases in average prices. How far has this helped workers at or close to the minimum wage to meet their living costs?

Above inflation increases to the NLW have helped workers meet their living costs. However, for many, especially young workers, these increases alone have not been enough. Our research has revealed that for under-30s in the lowest income quintile, 77% of their expenditure is dedicated to essentials alone – an increase of 21% compared to twenty years ago. For the median under-30 household, this figure is 70% and is up 16% in the same period. This is indicative of low living standards. The result of these strains on consumption are evident in rising levels of food insecurity amongst under-30s as well as historically low savings for younger generations.² As of April 2025, only 59% of 16 to 29 year-olds reported that they could afford an unexpected but necessary expense of £850.³

Our research on consumption has shown that while the cost-of-living crisis has eased for older generations, this has not been mirrored in younger age groups. Despite increases in the NLW benefiting younger workers the most, this has not reduced the strain on young people's budget.

The main explanation is the cost of housing, in particular the cost of privately renting. While this year's increase to the NLW was above inflation at 6.4%, the national average private

² Ibid.

³ ONS (2025) *Public opinions and social trends, Great Britain: April 2025*

rent rose by 7.4% in the same period.⁴ The national average private rent is equivalent to 50% of a month's wage on the NLW (in London it would be 83%). For non-homeowners, which comprises the majority of young people, increases to the NLW are being swallowed up by increasing rents.

This is not to diminish the importance of previous real-terms increases to the NLW. Without these increases, the picture for young people's consumption and expenditure would be even more gloomy. In many ways, the NLW has been the one force buoying the living standards of young people in the face of rising housing costs, increasing tax burdens and the retreat of the welfare safety net for the young. However, increases to the NLW will not meaningfully improve living standards for young people if their housing costs continue to rise at the same or faster rate.

Question 14 – Are there particular benefits or risks associated with the options presented here (or other options we have not considered)? Do you have views on the best approach to changing the age threshold?

IF favours the proposal to decrease the age threshold of the NLW to 18, as opposed to the alternative option of retaining the distinction of the 18–20 Year Old Rate and gradually aligning it to the NLW rate. We believe it is a matter of philosophical principle that all legal adults are entitled to the same minimum wage. To retain the distinction of the 18–20 Year Old Rate and the NLW, even if only in name, would only serve to undermine this. Moreover, subsuming 18 to 20 year-olds into the NLW will mean the changes are more likely to be permanent and future governments less tempted to alter the rates for young adults. It is a matter of enshrining intergenerational fairness into the definition of a “National Living Wage”.

Question 15 – Do you have views on the pace of the transition to an NLW starting at age 18?

As outlined in the introduction, IF believes the transition to an NLW starting at 18 should happen as quickly as possible. This is because:

- a) Many 18 to 20 year-olds need a higher minimum wage *now* and cannot afford to wait.**

Those aged between 18 and 24 face the highest rate of economic precarity compared to other age groups.⁵ They are less likely to have built up a savings cushion and they are more

⁴ ONS (2025) *Private rent and house prices, UK: May 2025*

⁵ Webster, H & Landreth Strong, F. (2022) *The cost of independence: young people's economic security*; RSA

likely to work under insecure contracts.⁶ This age group has the highest rate of food insecurity and the highest rate of food bank usage.⁷ They have less support from the welfare state, with Universal Credit and Local Housing Allowance having a lower rate for under-25s and under-35s respectively. The recent proposals to increase the age threshold of Personal Independence Payments (PIP) and the Universal Credit Health Element to 22 would mean our youngest workers have even less support. If welfare support is to be stripped from them, work must at least be made to pay. Many people in this group need access to the NLW as soon as possible to protect them and ensure a minimum living standard.

b) The lower wage floor for current 18 to 20 year-olds will have long-term effects for these cohorts

A lower wage at the start of a career has long-term effects. While earnings tend to rise over time in line with length of service, experience and knowledge, lower first-job earnings delay the future economic prospects of an individual. Research has shown that beginning a career in a weak bargaining position of being discriminated against based upon age can reduce an individual's capacity to bargain for better wages or career progressions in the future.⁸ The NLW should be made available to these cohorts as soon as possible so that they are not disadvantaged in the long-term.

c) University students are in desperate need of support

One of the most affected demographics are university students – effectively half of 18 to 20 year-olds are studying at university. Due to real-terms' reductions in the value of student maintenance loans as well as rising living costs, students' finances are becoming increasingly strained. Research has shown that the vast majority of students live off income that is well below the amount considered necessary for a minimum standard of living.⁹ Student poverty is increasing exponentially, evident by the fact that 27% of universities now have food banks. This is forcing students to work increasingly long hours at part-time jobs alongside their degree. The average hours worked has increased 153% from 2023 to 2024.¹⁰ Cost pressures are forcing students, whose parents are unable to provide adequate financial support, to drop out.¹¹ There is clear evidence that working

⁶ Haglund, A. (2022) *The savings squeeze: Young people locked out from the benefits of saving*. London: The Intergenerational Foundation <https://www.if.org.uk/research-posts/the-savings-squeeze-young-people-locked-out-from-the-benefits-of-saving/>

⁷ ONS (2024) Family Resource Survey

⁸ McKnight, A., Stewart, K., Himmelweit, S. M., Palillo, M. (2016) *Low pay and in-work poverty: preventative measures and preventative approaches*. Brussels: European Commission

⁹ Hill, K & Freeman, J (2024) *A Minimum Income Standard for Students*; HEPI

¹⁰ Neves, J, et al. (2024) *Student Academic Experience Survey 2024*; HEPI

¹¹ Hanna, L (2023) *Seven in ten students consider dropping out – How can universities fix this gloomy statistic?*; HEPI

excessive hours lowers student attainment, thus impacting future earnings.¹² The “cost-of-learning crisis” is entrenching pre-existing inequality and blocking social mobility. Working longer hours restricts students’ abilities to participate in extracurricular activity or apply to internships, both of which are becoming increasingly prized in a saturated graduate job market.

For better or worse, the NMW and NLW have become key levers for student support and combatting student poverty. There is a temptation for policymakers to not view student poverty as “real poverty”. Beyond being inherently untrue, this attitude also ignores the long-lasting consequences on student mental health and future earning potential.¹³ Students are in desperate need of financial support *now* and stand to gain the most from being entitled to the NLW. For the current cohort’s sakes, the transition to the NLW starting at 18 should be introduced as quickly as possible.

Question 17 – How should we evaluate the impact of the steps that we take to move towards an NLW starting at age 18?

As outlined in previous responses, we should evaluate the impact of moving towards an NLW starting at 18 by its immediate consequences. Will it lift more 18 to 20 year-olds out of in-work poverty? Will it improve food security for this group? Will it mean university students have to work fewer hours at a part-time job? Will it enable young workers to build up their savings?

The goal of the NMW is to ensure all workers are paid fairly and can have a decent standard of living. Thus, lowering the age threshold should be measured by how it affects the living standards of those affected.

Question 27 – Our [advice to the Government on the future of the NMW](#) recommended significant changes to the treatment of apprentices, including the replacement of the Apprentice Rate by a discount against the relevant NMW age rate. We welcome any comments on these recommendation

IF supports this proposal. We believe that apprentices should be entitled to a fair, liveable wage and this is not currently the case. Apprenticeships are lauded by many as the key to social mobility, yet the current low rates mean that this is often not the case. For young people from poorer backgrounds, who lack financial support from their family, many

¹² McGregor, I (2014) *How does Term-time Paid Work Affect Higher Education Students’ Studies, and What can be Done to Minimise any Negative Effects?*; Edinburgh University

¹³ Lewis, J & Steibahl, S (2025) *Students Mental Health in England: Statistics, policy and guidance*; House of Commons Library

cannot afford to take an apprenticeship, especially if it involves moving to another city.¹⁴ The disparity between the Apprenticeship Rate and the NMW/NLW rate means that for some young people there is too great an opportunity cost in short-term earnings to pursue an apprenticeship, even if it would guarantee greater earnings in the medium to long term.

The number of people undertaking apprenticeships has fallen dramatically in the last decade, and a sensible policy to reverse this trend would be to increase the apprenticeship rates in real-terms.¹⁵ This should be achieved by pegging the Apprentice Rate to a discounted version of the NLW Rate at around 80%, to ensure all future increases to the NLW are mirrored in the Apprentice Rate.

For further information or to arrange a meeting please contact:

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¹⁴ UCAS (2023) *Where Next: What influences the choices of would-be-apprentices*; Sutton Trust

¹⁵ Drayton, E et al. (2023). *Annual report on education spending in England: 2023*. London: Institute for Fiscal Studies