# Technical Note 3: An application of the technical notes: Costa Rica

In Costa Rica, minimum wages are set by skill level. There are minimum wages for unskilled, semi-skilled, skilled and specialized workers, plus five additional rates depending on the educational level. The minimum wage, which applies to unskilled workers, is known as the *salario minimo minimorum* and serves as the wage floor, below which no wage can be set, with the exception of the minimum wage for domestic work.

In 2015 the *salario minimo minimorum* was 283,799.64 colones per month. The minimum wage for domestic workers was 169,142.26 colones per month. This represented about 60 per cent of the *salario minimo minimorum* (the national minimum wage floor).

The underlying justification for the lower minimum wage for domestic workers related to the share of payment in kind and concerns about employment. Payment in kind was legally prohibited as part of the minimum wage, but was nonetheless a common practice in the domestic work sector in Costa Rica. It was therefore argued that a lower minimum wage plus payment in kind for domestic workers would equate to the total *value* of payment received for work by other unskilled workers.

In other words, if a domestic worker and an unskilled worker in a different sector both received the *salario minimo minimorum* in cash, the value of payment received by the domestic worker would be higher because of the additional value of payment in kind received.

It was also presumed that the majority of households that employed domestic workers were from the middle class, a section of society where women needed to work. The availability of domestic work facilitated the entry of middle class women into the labour market. Subsequently, it was presumed that increases in the minimum wage for domestic workers would discourage or even prevent middle class women's entry into the labour market.

The following document applies the analyses suggested in Technical Notes 1 and 2 to illustrate how the use of data can significantly inform the process of setting minimum wages for domestic workers.

The data presented are from a detailed study on the application of minimum wages in the domestic work sector in Costa Rica. While only the major findings are presented below, the study as a whole provides an example of the type and depth of analysis required as part of the preparatory process to set and/or adjust a minimum wage for domestic workers.[1]

The study relied on two data sources for its analyses: the Encuesta Nacional de Hogares (ENAHO) from 2010 to 2014 and the Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) from 2013.

## 1. Surveying the scene

### What are the composition and characteristics of the domestic work labour force in Costa Rica?

Between 2010 and 2014, domestic work represented about 9 per cent of wage employment. In 2013, 24 per cent of households employed a domestic worker – this had increased from 18 per cent of households in 2004.

[1] Trejos, Juan D., 2015, "La aplicación de los salarios mínimos para el servicio doméstico en Costa Rica". Unpublished study commissioned by the International Labour Organization. Available upon request.

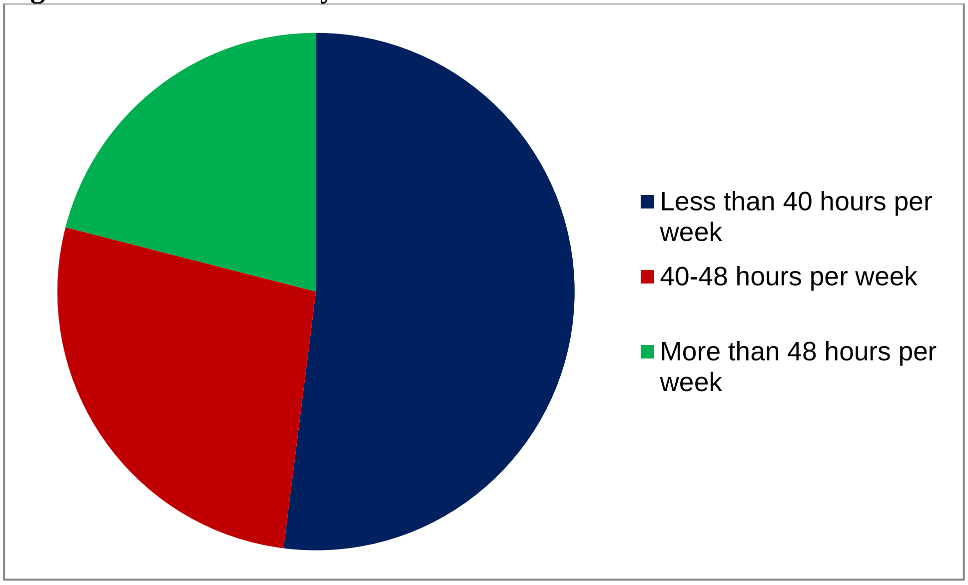
In the absence of a survey question that identifies whether a domestic worker lives in or out, one proxy to use is the number of hours worked. Since live-in domestic workers are those who work the greatest number of hours, it could be presumed that those who work the most are live-in workers.

Another alternative would be to use survey questions related to payment in kind, where available. Those domestic workers who receive accommodation as part of their payment in kind can be considered as live-in.

The majority of domestic workers (52 per cent) worked fewer than 40 hours per week (see Figure 6 for breakdown). Of the total, 27 per cent worked between 40 to 48 hours per week and 21 per cent worked more than 48 hours per week.

Using the number of hours worked, this would suggest that live-in workers represent about 21 per cent of domestic workers. Using criteria based on payment in kind, the percentage of live-in domestic workers ranges from about 5.2 per cent to 22 per cent, depending on the data source used.

**Figure 6 Hours worked by domestic workers**



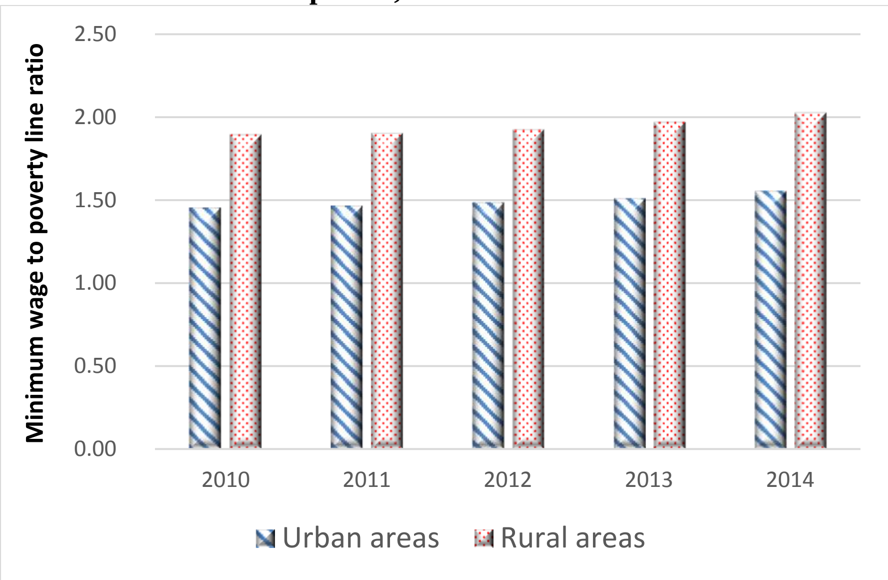

**Source**: Trejos, J. D., 2015, *ibid*.

## 2. What minimum wage level would cover the needs of domestic workers and their families?

A full overview of how to calculate the needs of workers and their families is provided in chapter 5. This section highlights the major findings.

When compared with both the rural and urban poverty lines for a single person, the minimum wage for domestic workers exceeds both. Figure 7 shows the ratio between the minimum wage and the poverty line. For example, in 2014, the minimum wage of a domestic worker was twice the poverty line for a single person in rural areas.

**Figure 7 Ratio between the minimum wage for domestic workers and the poverty line in rural and urban areas for one person, 2010–14**




**Source**: Trejos, J. D., 2015, *ibid.*

However, the Minimum Wage Fixing Convention, 1970 (No. 131), explicitly makes reference to the notion that the minimum wage should take into account the needs of workers *and their families*. To account for the needs of workers and their families, it is important to know the average family size and the number of working members per household.

Table 7 shows these descriptive statistics for different types of families: all households, the poorest 50 per cent of households, and the households of domestic workers. Households of domestic workers do *not* refer to the households in which domestic workers work – rather they refer to the household size of the domestic worker's own family.

Table 7 shows that, while the average household size is 3.35 people nationwide, domestic workers' households are slightly larger (3.78 people) and more people in them work (2.11 people work compared to 1.44 people in all households). However, although more people work in domestic workers' households, not all of them work full time.

This can be seen from the fourth row (full-time equivalent working members per household), which captures the number of people working in a household by standardizing the number of hours they work. The needs of families of different sizes are also provided in the table (row 6); this is calculated by multiplying the average household size by the national poverty line for a single person. A more appropriate estimation for row 6 would be to use the equivalence scales for household size presented in Box 1.

Finally, to calculate the minimum wage required to lift the different family types out of poverty, we divide the income required by the number of people in the household who work (full-time equivalent).

**Table 7 Characteristics of households by different household type, 2014**

| | All households | Poorest 50% of households | Domestic worker households |
|---|---|---|---|
| (1) Average household size | 3.35 | 3.65 | 3.78 |
| (2) Average working members per household | 1.44 | 1.15 | 2.11 |
| (3) Average hours worked | 44.62 | 44.07 | 40.79 |
| (4) Full-time equivalent working members per household | 1.34 | 1.05 | 1.80 |
| (5) National poverty line – single person | 99 572 | | |
| (6) Income required for family size [(1) x (5)] | 333 380 | 363 237 | 376 210 |
| (7) Minimum wage per worker required to meet family's needs [(6) ÷ (4)] | 248 556 | 344 347 | 209 389 |
| (8) Statutory minimum wage for domestic workers in 2014 | 165 017 colones | | |

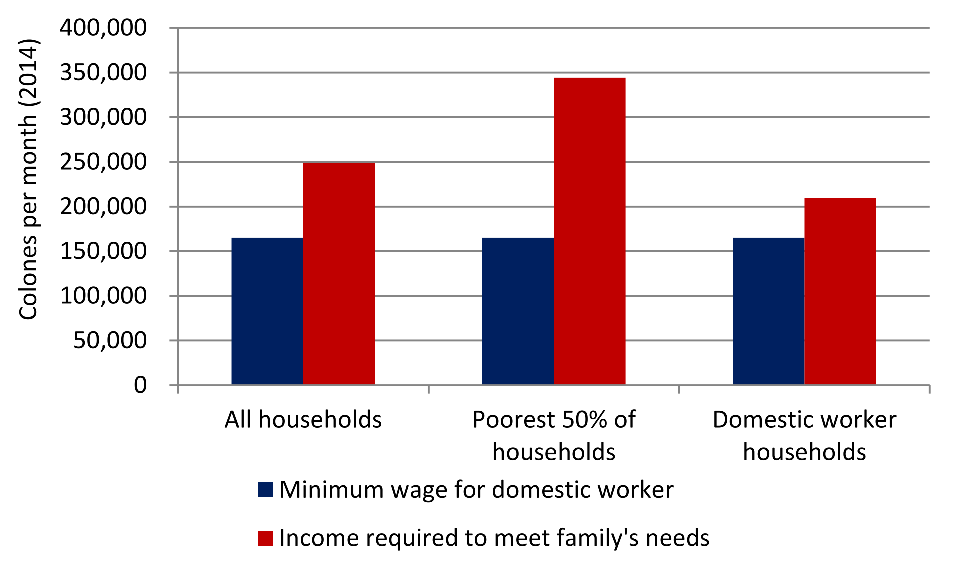
**Source**: Trejos, J. D., 2015, *ibid*.

The results of this analysis are shown graphically in Figure 8. This shows the minimum wage of a domestic worker in relation to the minimum wage per worker required to meet the needs of varying household types. Irrespective of household type, the minimum wage of a domestic worker is insufficient to meet the value of the needs required to lift their families out of poverty.

If the minimum wage were based on all households, it would need to be at least 248,556 colones per month. If the minimum wage were based on the needs of the poorest 50 per cent of households, it would need to be at least 344,347 colones per month. If the minimum wage were based on the households of domestic workers, it would need to be at least 209,389 colones per month.

In sum, in order for the minimum wage to lift domestic workers and their families out of poverty, in 2014, the minimum wage would have needed to be between 209,389 colones and 344,347 colones per month. This would imply an increase in the minimum wage for domestic workers in 2014 of between 27 per cent and 109 per cent.

**Figure8 The domestic worker minimum wage in relation to the needs of different family types, 2014**




**Source**: ILO commissioned study. Triegos, J.D., 2015, *ibid.*

## 3. Which economic factors should be considered when setting a minimum wage for domestic workers?

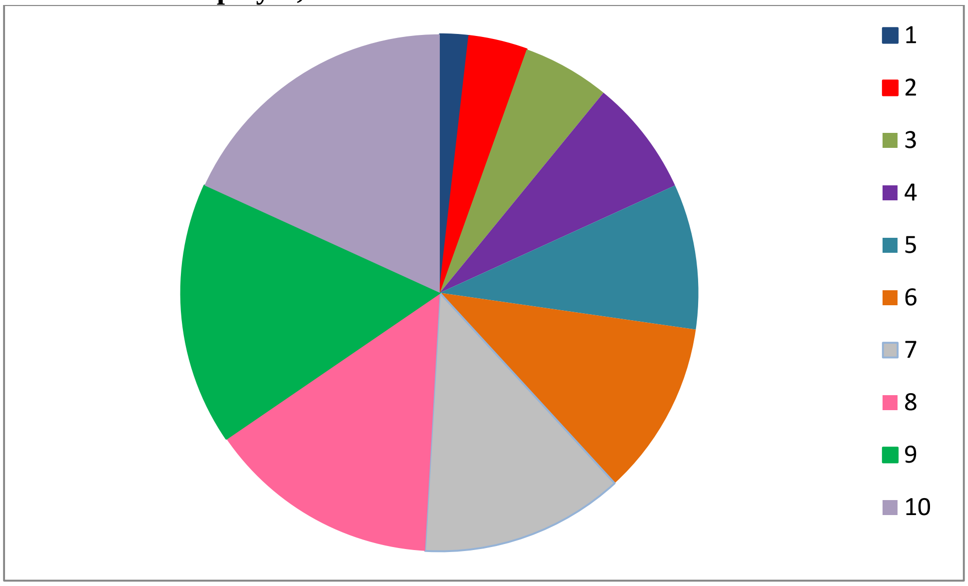
Convention No. 131 also makes reference to the need to consider economic factors when fixing the minimum wage. A full overview of how to calculate economic factors is outlined in chapter 5 and technical note 1. This section highlights the major findings.

As described earlier, one of the justifications for a lower minimum wage for domestic workers was previously linked to the need for middle class women to be able to work. If the minimum wage for domestic workers was too high, it was argued, then middle class families may not be able to afford it, and middle class women may opt to stay at home instead. This would have negative implications for the labour force participation patterns of women, as well as on the employment of domestic workers.

To assess the veracity of these claims, first we establish a typology of households that employ domestic workers. As can be seen, Figure 9 shows that 59 per cent of domestic workers were employed by the richest 30 per cent of households and about 70 per cent of domestic workers were employed by the richest 40 per cent of households.

Moreover, when the sum of wages paid by these households to domestic workers is combined, the richest 40 per cent of households account for 88 per cent of all wages paid to domestic workers. This is presumably because of the greater number of hours they contract and/or the higher wages paid by these households. Subsequently, any increase in the minimum wage of domestic workers would be borne by those households with the greatest disposable income available.

**Figure 9 Domestic worker employment in Costa Rica, by decile of the disposable household income of the employer, 2013**




**Note**: Deciles divide a group into ten parts. For example, in the figure, the first decile refers to the poorest 10 per cent of households, while the tenth decile refers to the wealthiest 10 per cent of households.
**Source**: ILO commissioned study. Triegos, J.D., 2015, *ibid.*

Secondly, according to the study, in about half of the households that employ domestic workers, women do not work. This suggests that the underlying reasons for hiring a domestic worker are completely unrelated to the need for a secondary earner in half of the households that employ domestic workers.

Thirdly, in Costa Rica, households tend to spend about the same percentage on domestic work. On average, households spend about 4 per cent of their income on domestic work and this fluctuates within a narrow range of about 3.6 per cent for the richest households to about 4.5 per cent among the poorest households.

Since households spend about the same percentage of income, but have different income levels, this implies that households with different income levels hire domestic workers for a different number of hours or for higher wages. It therefore seems that changes would be more likely observed in the number of hours worked rather than in employment..

Using household survey data, it would be possible to simulate the effect of a proposed increase in the minimum wage on household expenditure. This could provide an indication of the percentage increase in expenditure on domestic work that households may incur following an increase in the minimum wage.

In the previous sub-section, it was shown as an example that in order for the minimum wage for domestic workers to lift workers and their families out of poverty in 2014, the minimum wage for domestic workers would have needed to increase by between 27 per cent and 109 per cent.

It is possible to simulate the effect of a 10, 20, 27, 50, 75, and 109 per cent increase of the minimum wage on the household expenditure of domestic work. This would provide a sense of the burden this could present to households, and the subsequent impact on employment. Small increases in expenditure, particularly among the wealthiest households who are the primary employers, are unlikely to have a significant negative impact – however, large increases in total expenditure may.

While such simulations were not completed as part of the commissioned study (Triegos, J.D., 2015, *ibid)*, the evidence presented here shows that the wealthiest families provide the bulk of employment for domestic workers and pay for the majority of their wages.

## 4. Are domestic workers covered by working time provisions?

Until the reform of Costa Rica's labour code in 2009, domestic workers not only had a lower minimum wage, but also a different, and longer, standard working week. While the labour code limited daily working time to eight hours per day for workers in the private sector, daily working time was set at ten hours per day for domestic workers.

However, in 2009, an amendment to the labour code (Law No. 8726, 2 July 2009) established the eight-hour work day for domestic workers, equalizing the working time provisions with those of other workers in the private sector. The general weekly hours limit for all workers, including domestic workers, is 48 hours. Overtime provisions also apply to domestic workers.

## 5. Should there be an hourly or monthly minimum wage in Costa Rica?

Given that all domestic workers are covered by working time provisions, they work a range of hours, and there are both live-in and live-out domestic workers, then both an hourly and a monthly minimum wage would be appropriate for Costa Rica. The availability of multiple rates would facilitate the correct payment of service for the actual number of hours worked for both live-in and live-out domestic workers.

This is what occurs in practice, albeit indirectly. While the minimum wage decree only fixes the minimum wage for domestic workers by month, there is a clause in the decree that states how various rates should be calculated. In the case of the monthly minimum wage, it should be divided by 26 to calculate the daily wage. The daily wage – which refers to eight hours – could then be divided by eight to calculate an hourly wage.

## 6. How should payment in kind be regulated?

As explained earlier, payments in kind are not permitted as part of the minimum wage in Costa Rica. However, the prevalence of payment in kind in the domestic work sector partly served as justification for creating a lower minimum wage for domestic workers. The theory was that payments in kind could be received in addition to the lower cash minimum wage.

Currently, the law in Costa Rica states that the value of payment in kind should be specified in the contract. In cases where the value is not specified, it is valued at 50 per cent of the cash wage for the purposes of social security, vacation days, and so on.

It is interesting to note, however, that according to the data, between 52 per cent and 69 per cent of domestic workers do not receive any payment in kind (depending on the data source used). Hence, the majority of domestic workers are paid a lower wage *without* the added value of these benefits.

Between 31 per cent and 48 per cent of domestic workers do receive either food and/or accommodation as payment in kind (depending on the data source used). In order to accommodate these workers, and not discriminate against those who do not receive these benefits, one approach would be to define the value of in-kind payments as levels, as has been done in Switzerland.

In practice, this would imply that all domestic workers would receive the same minimum wage. Reductions to the minimum wage would be made exclusively for the benefits in kind actually received. The value of the payments in kind received would be based on the price set by the government (or relevant authority) in the minimum wage decree (that is, accommodation per month = 33,000 colones; breakfast = 100 colones, and so on). See Technical Note 2 for a description.

## 7. Conclusions

Analyses based on the needs of different types of households suggest that in order for the minimum wage for domestic workers to lift workers and their families out of poverty in 2014, the minimum wage would have needed to be between 209,389 colones and 344,347 colones per month. This would imply an increase in the minimum wage of between 27 per cent and 109 per cent.

The evidence also refutes the claim that a lower minimum wage is required to facilitate the entry of middle class women into the labour market. Data analyses indicate that the majority of households that employ domestic workers are among the wealthiest households. These showed that 59 per cent of domestic workers were employed by the richest 30 per cent of households, and about 70 per cent of domestic workers were employed by the richest 40 per cent of households.

When the sum of wages paid by these households to domestic workers is combined, the richest 40 per cent of households account for 88 per cent of all wages paid to domestic workers. This is presumably because of the greater number of hours they contract and/or the higher wages paid by these households.

In addition, among families that employ domestic workers, half are households where women do not work, suggesting that other reasons underlie the rationale for employing domestic workers.

Since there are both live-in and live-out domestic workers and all domestic workers are covered by wage and working time provisions, an hourly and a monthly minimum wage could be set. The hourly minimum wage would accommodate live-out domestic workers working fewer hours, while the monthly minimum wage could accommodate live-in domestic workers and those live-out domestic workers who work full time. This is the current practice in Costa Rica. The law stipulates the monthly amount but also provides instructions to calculate the pro rata daily and hourly minimum wage.

Between 31 per cent and 48 per cent of domestic workers receive payments in kind. In order to accommodate them, and to avoid discriminating against those who do not receive them, one approach would be to define the value of payments in kind as levels. In practice, this would imply that all domestic workers would receive the same wage. Deductions to the minimum wage would be made exclusively for the value of the benefits in kind actually received.