

NWPC Guidelines No. 02

Series of 2012

**GUIDELINES ON THE IMPLEMENTATION OF THE
TWO-TIERED WAGE SYSTEM**

Pursuant to RA 6727, the following guidelines are hereby adopted for the implementation of the Two-Tiered Wage System, a reform within the current minimum wage system.

Section 1. The Two-Tiered Wage System is an approach to minimum wage setting which aims to improve the coverage of minimum wages; promote worker and enterprise productivity and; address the negative effects of minimum wage policies.

Since it is a reform under the current system, it maintains regional minimum wage setting by the RTWPBs. It upholds the policy of setting minimum wage to protect vulnerable workers and recognizing collective bargaining as the primary mode for setting wages and other terms and conditions of employment.

Section 2. Definition of Terms

- a. Board - refers to the Regional Tripartite Wages and Productivity Board.
- b. Commission - refers to the National Wages and Productivity Commission.
- c. Order - refers to the Wage Order promulgated by the Board pursuant to its wage-fixing authority.
- d. Advisory – refers to the Wage Advisory issued by the Board in accordance with the two-tiered wage system.
- e. Two-Tiered Wage System – refers to a pay system consisting of:
 - 1. minimum wage; and
 - 2. incentive pay based on productivity improvement and gainsharing.
- f. Minimum Wage – refers to the lowest wage rate fixed by law
- g. Regional Average Wage – refers to the average basic wage of workers in the private sector in the region.
- h. Regional Poverty Threshold – refers to the minimum income/expenditure required for a family/individual to meet the basic food and non-food requirements.
- i. Productivity Incentive – refers to bonuses given to workers as a result of increases in productivity.

Section 3. FIRST TIER – Regional Minimum Wage

The first tier shall be the regional minimum wage rates provided in a Wage Order issued by the Boards.

- a. Concept –The setting of a minimum wage aims to protect vulnerable workers. It shall be set higher than the poverty threshold without creating negative effects of minimum wage policies. Reference shall be made to the poverty threshold, average wage and socioeconomic indicators, considering the criteria prescribed in RA 6727.

*Poverty threshold*¹ reflects demand for living wages, wage adjustments vis-à-vis the consumer prices, cost of living and changes or increases therein, needs of workers and their families and improvements in standards of living.

*Average wage*² reflects prevailing wage levels, equitable distribution of income and wealth along the imperatives of economic and social developments.

Other socioeconomic indicators include need to induce industries to invest in the countryside, fair return of the capital invested and capacity to pay of employers and effects on employment generation and family income.

- b. Formula – The Boards shall refer to the regional poverty threshold, average wage and region-specific socioeconomic indicators in determining the minimum wage using the following formula:

Regional Minimum [Floor] Wage = x(Poverty Threshold) + y(Average Wage) + (socio-economic indicators)

Where:

x—is the weight for poverty threshold, expressed in percent

y—is the weight for average wage, expressed in percent

The sum of x and y should be equal to 1.

- c. A weighting system for poverty threshold and average wage shall be used to reflect the relative importance of each indicator. The weights may vary across regions depending on the gap between minimum wages, poverty threshold and average wage and the impact of the socioeconomic indicators.

(For instance, the Board may assign the biggest weight to poverty threshold if minimum wages are already close to or have exceeded average wage and the Board

¹ derived from official poverty statistics of National Statistical Coordination Board

² derived from the Labor Force Survey of the National Statistical Office

may want to consider moderate increases in minimum wages; or the Board may assign the biggest weight to average wage if minimum wages are close to or are below poverty threshold and the Board may want to consider more substantial increases in the minimum wages to keep them above the poverty threshold.)

- d. The weights shall be reviewed, as appropriate, and may be modified to achieve a structure where minimum wages are kept above poverty threshold.
- e. The NWPC will, initially, provide the Boards data on poverty threshold and average wage until such time that the NWPC has provided the Boards the necessary technical support to enable them to source and process these data.
- f. In consultation with the NWPC, the Boards shall be responsible for assigning a value to represent region-specific socioeconomic conditions, which value shall be reviewed as necessary.
- f. In estimating family poverty threshold, the Boards shall apply the international consumption equivalence scale of 3.7 to the estimated per capita poverty threshold to estimate the poverty threshold for a 5-member family.

Section 4. SECOND TIER – Advisory

The second tier shall consist of productivity bonuses and incentives based on agreement between workers and management.

- a. Concept – The Boards shall issue an Advisory to guide enterprises or industries on a range of productivity incentives. The Advisory may be used as basis for employer initiatives or enterprise-level negotiations.
- b. Identification of Priority Industry– The Board may identify a priority industry or sub-industry or sector (based on the 2009 Philippine Standard Industrial Classification) as the subject of an Advisory. As criteria for selecting a priority industry, the Board may consider the industry's share to employment; contribution to economic output; growth in labor productivity; wages and other relevant factors.
- c. Conduct of Industry Study and Consultation –The Board shall undertake studies on the performance and outlook of the industry. The Board may undertake these studies on its own or commission the academe or a research institution to conduct these studies for them. The Board shall involve industry stakeholders in these studies.
- d. Issuance of an Advisory – The Board shall issue an Advisory based on the results of the studies and consultations with industry stakeholders. It shall contain an assessment of the region's overall economic performance; industry/sub-industry/sector-specific data on labor productivity, wages, profitability, outlook and

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other relevant information; and a recommendation on a range of productivity incentives.

- e. Monitoring and Assessment – The Board shall monitor and assess the implementation of its Advisory.
- f. Advocacy – The Boards shall conduct information and awareness campaign on the Advisory.
- g. Applicability of RA 6971 – Enterprises with existing productivity committees may avail of the tax incentives under RA 6971 provided they comply with the provisions therein.
- h. Assistance to enterprises – The Board shall provide technical assistance and advice to enterprises in the application of the Advisory.

Section 5. DATA REQUIREMENTS

The Board shall, within 90 days from the effectivity of this Guidelines, submit to the Commission the data required for the implementation of the Two Tiered Wage System for endorsement to the National Statistics Coordination Board and other concerned statistical agencies.



Section 6. EFFECT ON EXISTING NWPC GUIDELINES ON MINIMUM WAGE FIXING

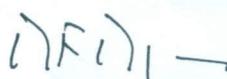
The existing procedural guidelines provided in NWPC Guidelines No. 01, Series of 2007 on the Amended Rules of Procedure on Minimum Wage Fixing shall remain effective and continue in force.

Section 6. EFFECTIVITY

This guidelines shall take effect on 26 OCT. 2012.

Manila, Philippines. 21 SEPT. 2012.


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Chairperson-Designate


EMMANUEL F. ESGUERRA
Vice-Chairperson-Designate



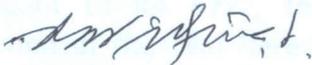
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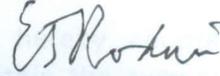
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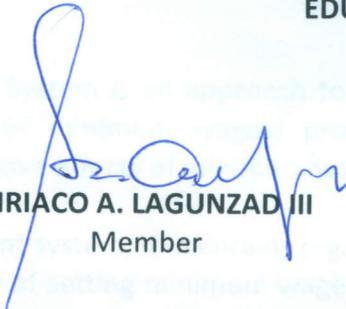
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ON THE IMPLEMENTATION OF A TWO-TIERED WAGE SYSTEM

The following guidelines are for the Wage System, a reform with the following objectives:

Section 1. The Two-Tiered Wage System is an approach to minimum wage setting which aims at improving the coverage of minimum wage primarily worker and enterprises.

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Section 10. The Two-Tiered Wage System is an approach to minimum wage setting which aims at improving the coverage of minimum wage primarily worker and enterprises.

2. Definitions of Terms
- a. Board - refers to the Regional Tripartite Wages and Productivity Board.
 - b. Order - refers to the Wage Order promulgated by the Board pursuant to its wage-setting authority.
 - c. Advisory - refers to the Wage Advisory issued by the Board in accordance with the Board's wage system.
 - d. Two-Tiered Wage System - refers to a pay system consisting of:
 - 1. a minimum wage; and
 - 2. a variable pay based on productivity improvement and performance.
 - e. Minimum Wage - refers to the lowest wage rate fixed by law.
 - f. Regional Average Wage - refers to the average basic wage of workers in the private sector in the region.
 - g. Poverty Threshold - refers to the minimum income/expenditure required by a family/individual to meet the basic food and non-food requirements.
 - h. Productivity Incentive - refers to bonuses given to workers as a result of productivity improvement.