

# NEW YORK'S TIPPED WORKERS ARE OVERDUE FOR A RAISE.

## POLICY BRIEF

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### NEW YORK'S TIPPED WORKERS AND THE SUB-MINIMUM WAGE

Apurva Mehrotra

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October 2014



**The Community Service Society of New York** (CSS) is an informed, independent, and unwavering voice for positive action representing low-income New Yorkers. CSS addresses the root causes of economic disparity through research, advocacy, and innovative program models that strengthen and benefit all New Yorkers.

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## Introduction

At the beginning of 2014, hundreds of thousands of New Yorkers earning the minimum wage received a raise. Under an agreement reached in 2013, state legislators passed a law increasing the minimum wage from \$7.25 to \$8.00 an hour on January 1, 2014 with scheduled increases to \$8.75 at the start of 2015 and \$9.00 an hour at the start of 2016. It was the first increase in pay for minimum wage workers in New York since 2009, when the federal minimum wage was raised to \$7.25 an hour, superseding New York's \$7.15 an hour rate.

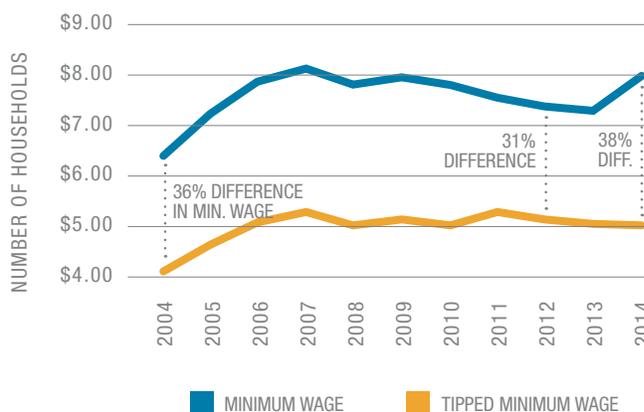
The agreement reached in 2013 has not ended the debate on the minimum wage in New York. President Obama has called on Congress to pass a federal minimum wage of \$10.10 an hour and other localities across the country have since enacted higher minimum standards. Five states plus Washington, D.C. are set to gradually increase their minimum wage to \$10.00 an hour or higher, and cities such as San Francisco and Santa Fe are already well past that mark. Seattle recently passed a bill to increase its minimum wage to \$15.00 an hour by 2018. Against this backdrop, New York's planned increase to \$9.00 an hour by 2016 seems to many like not nearly enough. State Assembly Speaker Sheldon Silver has spoken in favor of moving up the schedule of minimum wage increases, and New York City Mayor Bill de Blasio is seeking both a higher state minimum wage and the power for localities to set a minimum wage 30 percent above the state level.

Amidst the debate over whether or not New York needs to revisit the 2013 minimum wage agreement, one group of workers is still waiting for any increase in pay at all. The vast majority of tipped workers—who are covered by a separate, lower minimum wage at both the federal level and in most states—did not receive an increase in their minimum wage in 2014. In New York, the minimum wage remains at \$5.00 an hour for food service workers and \$5.65 an hour for service employees.<sup>1</sup>

The rationale behind the lower tipped minimum wage is that employees will make up the difference in base salary with their tips. However, our findings show that a sizeable share of tipped workers in New York are struggling to make enough—even after tips—to keep them out of poverty. We find that:

- ▶ Tipped workers in New York State are more than twice as likely to live in poverty as workers in non-tipped occupations.
- ▶ One out of five tipped workers in New York City working in food services and accommodation use food stamps to put food on their own table at home, compared to 14 percent of the overall workforce.
- ▶ Median hourly earnings (including tips) for tipped workers in New York State are less than two-thirds of hourly earnings for the workforce as a whole; in the state outside of New York City, tipped earnings are only 55 percent of earnings for all workers.
- ▶ In comparison to similar workers nationwide, tipped workers in New York City are older and more likely to work full-time to support a household. Seventy-five percent of tipped workers in New York City are 25 or older; 44 percent are either the head of household or a spouse; and 78 percent work full-time.
- ▶ The gap between the tipped minimum wage and the overall minimum wage in New York State has gone up considerably in the last several years, and will only grow larger with scheduled increases to the overall minimum wage.

**CHART 1: REAL VALUE OF THE NYS MINIMUM WAGE AND MINIMUM WAGE FOR TIPPED WORKERS\***



Data retrieved from US Department of Labor and New York State Department of Labor. In real 2014 dollars using CPI-U-RS.

\*New York has separate rules for different kinds of tipped workers—these figures are for food service workers, since they comprise the greatest share of tipped employees.

As part of the 2013 minimum wage deal, Governor Cuomo agreed to convene a Wage Board to determine the minimum wage for tipped workers. After considerable delay, the three-person board was announced in September 2014 and is scheduled to conduct four hearings across the state of New York from October through December of this year.

There is a great deal of debate around a possible increase in the minimum wage for tipped workers. Workers and their advocates argue that tipped earnings are too dependent on a variety of unpredictable factors to be a reliable source of income. Meanwhile, some in the hospitality industry claim that an increase in the tipped minimum wage will result in job losses, price increases, and the failure of small businesses.

This report will examine the current situation of tipped workers in the state of New York and the potential impact of an increase in the tipped minimum wage. The report is broken down into the following sections:

- ▶ The history of the tipped minimum wage
- ▶ Earnings and poverty levels of tipped workers in New York State and City
- ▶ Demographic characteristics of tipped workers in New York State and City
- ▶ The impact of different tipped minimum wage policies
- ▶ Results from the Community Service Society's Unheard Third survey showing public sentiment on the tipped minimum wage

*Note:* This report focuses only on tipped workers in the food service and accommodation industry.<sup>2</sup> National studies have identified other occupations—such as hairdressers, massage therapists, and taxi drivers—as predominately tipped occupations. However, the majority of tipped workers nationally and in New York work in food services and accommodation, and the tipped occupations analyzed in this report are those that are most likely to be impacted by the upcoming Wage Board recommendations. This report focuses on the following occupations:<sup>3</sup>

- ▶ Waiters and waitresses
- ▶ Bartenders
- ▶ Dining room, cafeteria attendants, and bartender helpers (in accommodation and food services industry)
- ▶ Food servers, non-restaurant (in accommodation and food service industry)

## The History of the Tipped Minimum Wage

When the Fair Labor Standards Act of 1938 (FLSA) was passed, the first federal minimum wage was set at \$0.25 an hour. However, many workers were excluded from the bill's provisions, including domestic workers, agricultural workers, and restaurant and other tipped workers. In 1966, thanks in large part to the efforts of labor and civil rights activists, amendments to the FLSA were added, including a separate minimum wage for tipped workers set at 50 percent of the overall minimum wage. The tipped minimum wage would hover between 50 and 60 percent of the minimum wage over the next thirty years.<sup>4</sup>

In 1996, a deal was struck that would raise the federal minimum wage from \$4.25 to \$5.15 an hour over two years. However, Republicans only agreed to the increase if the tipped minimum wage stayed at \$2.13 an hour, where it had been since 1991, and where it has remained since.<sup>5</sup> With the federal minimum wage now at \$7.25 an hour, the federal tipped minimum wage has gone from being 50 percent of the minimum wage in 1991 to just 29 percent of the minimum wage today.

The rationale behind a lower minimum wage for tipped workers is that their tips will make up the difference in base pay. The gap between the tipped minimum wage and the minimum wage is known as a "tip credit" for employers. In theory, every tipped worker would receive at least the regular minimum wage when including their tips, with employers filling in the gap in instances when one's base pay plus tips are not enough to reach the minimum wage. However, some argue that it is often difficult for tipped workers to collect their full wages, and that the way restaurants deal with tips is too variable and complex for employees to keep track of what they are owed.<sup>6</sup>

## Several states have a higher tipped minimum wage than the federal standard

Several states, including New York, have a tipped minimum wage that is higher than the federal \$2.13 an hour standard, though most still maintain a two-tier system. Twenty-four states pay a tipped minimum wage that is higher than the federal level, but still below the state's minimum wage. Nineteen states have a tipped minimum wage that is equal to the federal tipped minimum wage of \$2.13 an hour, and seven states offer no tip credit, meaning tipped workers receive the same minimum wage as all other workers (Hawaii recently passed a bill that will make it the eighth state with no tip credit).

The minimum wage in New York is currently \$8.00 an hour, but for food service workers the minimum wage is \$5.00 an hour and for service employees it is \$5.65 an hour. (Tipped workers in non-hospitality industries such as nail technicians and car wash workers earn either \$6.05 or \$6.80 an hour depending on the amount of tips they receive, and there are separate rules in place for resort hotels.)

## Earnings and Poverty Levels of Tipped Workers in New York State and City

Using the methodology of national studies—which include a range of occupations in addition to those analyzed in this report—New York State has nearly 318,000 tipped workers. Well over half of these workers work in the accommodation and food services industry, and those workers will be the focus of this report. Of New York’s more than 172,000 tipped workers in accommodation and food services, just over 85,000, or nearly half, are in New York City.

**TABLE 1: EMPLOYMENT LEVELS OF PREDOMINATELY TIPPED OCCUPATIONS IN ACCOMMODATION AND FOOD SERVICES**

|  | Nationwide         | New York State   | New York City    |
|--|--------------------|------------------|------------------|
| Bartenders   | 59,738             | 59,738           | 12,023           |
| Waiters and waitresses                                     | 2,058,010          | 123,538          | 57,336           |
| Food servers, non-restaurant                               | 59,738             | 4,034            | 1,768            |
| Dining room, cafeteria attendants, and bartender helpers   | 252,069            | 20,684           | 13,593           |
| <b>Tipped workers in Accommodation and Food Services</b>   | <b>2,730,921</b>   | <b>172,245</b>   | <b>85,080</b>    |
| <b>Total employment in Accommodation and Food Services</b> | <b>11,333,562</b>  | <b>659,542</b>   | <b>306,438</b>   |
| <b>Tipped workers share of employment in industry</b>      | <b>24.1%</b>       | <b>26.1%</b>     | <b>27.8%</b>     |
| <b>Total Employment</b>                                    | <b>127,096,996</b> | <b>7,978,503</b> | <b>3,314,934</b> |

Source: 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

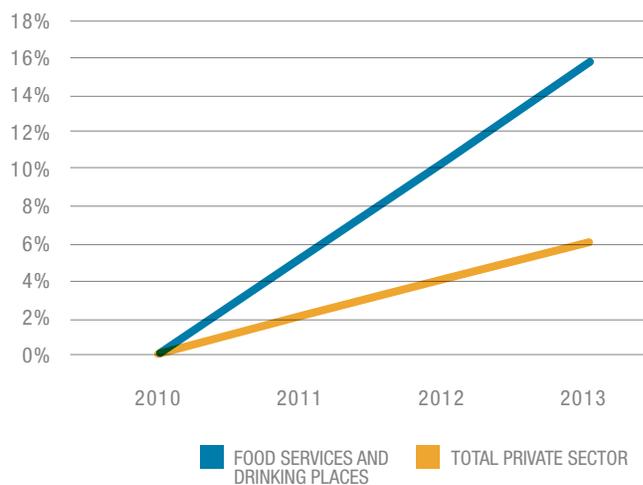
### Tipped workers represent more than a quarter of workers in accommodation and food services

Tipped workers represent more than a quarter of workers in accommodation and food services, an industry which accounts for 8.3 percent of all employment in the state and 9.2 percent of employment in the city.

Much of the job growth in the recovery from the Great Recession has been in low-wage jobs.<sup>7</sup> This trend has been partly driven by growth in the accommodation and food services industry. The pace of job growth in “food services and drinking places” (a sub-industry where most of the workers in this analysis fit) has vastly exceeded overall private sector job growth in New York.

Private sector employment in New York went up nearly six percent in all industries from 2010 to 2013. In food services and drinking places, employment went up nearly 16 percent during the same time period. The growth in employment in food services and drinking places and the increasing share of overall employment it represents underscores the importance of ensuring workers in the industry are paid a fair wage.

**CHART 2: GROWTH IN EMPLOYMENT FROM 2010-2013 IN NEW YORK STATE**



Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages

**Tipped workers in New York earn a fraction of what other workers earn**

This section will examine the earnings of tipped workers in New York and how they compare to the state’s overall workforce. The reported earnings for tipped workers in this section include tips.

**TABLE 2: MEDIAN HOURLY EARNINGS INCLUDING TIPS**

|  | All workers | Tipped Workers in Accommodation and Food Services | Tipped worker hourly earnings as % of hourly earnings for all workers |
|--|-------------|---|---|
| Nationwide                             | \$17.04     | \$10.15   | 60%   |
| New York State                         | \$18.64     | \$11.60   | 64%   |
| New York City                          | \$18.42     | \$12.17   | 66%   |
| New York State – outside New York City | \$18.81     | \$10.36   | 55%   |

**Source:** 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

As Table 2 shows, tipped workers earn, on average, significantly less than the workforce as a whole. Nationally, median hourly earnings for tipped workers are 60 percent of overall median earnings. In New York, median hourly earnings for tipped workers are 64 percent of earnings for all workers in the state. It is worth noting that the nationwide figures for tipped workers are brought down by states where the tipped minimum wage is equal to or only slightly higher than the federal standard of \$2.13 an hour. And median earnings for New York’s tipped workers are brought up by the higher earnings of New York City’s tipped workers, which may be attributable to higher prices for tipped services. If we look at the state of New York outside of New York City, the median hourly earnings of tipped workers drops significantly to \$10.36 an hour, just 55 percent of median earnings for all workers in the state outside of New York City.

Though tipped workers have higher earnings in New York than in many other places in the nation, earnings for tipped workers in the state are still low. Median hourly earnings for tipped workers in New York translate to \$24,128 per year for a full-time, year round worker compared to \$38,771 for workers in the state overall.

The figures presented above represent median hourly earnings; however, workers at the lower end of the earnings scale make significantly less (Table 3).

**TABLE 3: HOURLY EARNINGS INCLUDING TIPS OF TIPPED WORKERS IN ACCOMMODATION AND FOOD SERVICES BY PERCENTILE**

| Percentile | New York State | New York City | New York State, outside New York City |
|------------|----------------|---------------|---------------------------------------|
| 10th       | \$6.22         | \$6.47        | \$5.70                                |
| 20th       | \$7.77         | \$8.17        | \$7.51                                |
| 30th       | \$8.88         | \$9.64        | \$8.29                                |
| 40th       | \$10.15        | \$10.92       | \$9.13                                |
| 50th       | \$11.60        | \$12.17       | \$10.36                               |
| 60th       | \$13.00        | \$13.32       | \$12.68                               |
| 70th       | \$15.01        | \$15.62       | \$14.78                               |
| 80th       | \$19.11        | \$20.29       | \$17.26                               |
| 90th       | \$25.08        | \$31.07       | \$20.10                               |

**Source:** 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

One out of five tipped workers in New York State make less than the current state minimum wage of \$8.00 an hour, even when including tips. Thirty percent of tipped workers in the state earn less than \$8.88 an hour, which for a full-time year round worker translates to just \$18,470 dollars annually, not enough to keep a family of three out of poverty. New York City’s tipped workers fare slightly better than those in the rest

of the state; still, thirty percent make less than \$10 an hour including tips, and these earnings must go further given New York City's higher costs for housing and other expenses. In the state outside of New York City, 30 percent of workers make less than \$8.29 an hour including tips. That figure is less than what the minimum wage will be at the start of 2015.

### Latinos in New York City and whites outside the city earn the least among racial/ethnic groups

The table below shows the median hourly earnings for tipped workers by race/ethnicity for New York State and New York City.

**TABLE 4: MEDIAN HOURLY EARNINGS INCLUDING TIPS OF TIPPED WORKERS IN ACCOMMODATION AND FOOD SERVICES BY RACE/ETHNICITY**

|        | New York State | New York City |
|--------|----------------|---------------|
| White  | \$10.36        | \$12.17       |
| Black  | *              | *             |
| Asian  | \$12.42        | \$12.50       |
| Latino | \$11.60        | \$11.41       |
| Total  | \$11.60        | \$12.17       |

Source: 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

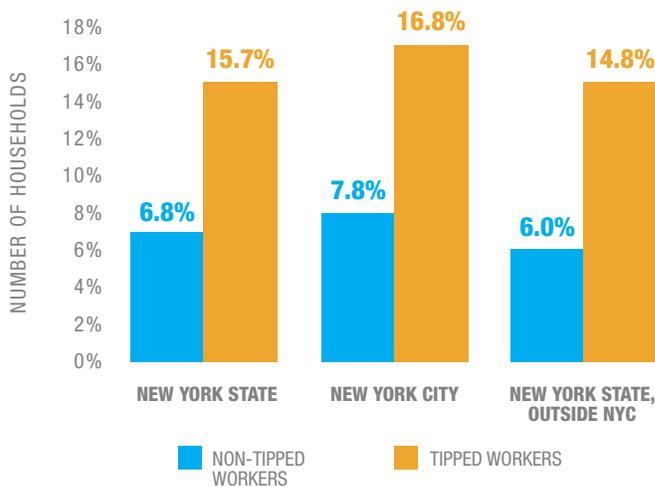
\*Sample size too small to analyze; blacks represent a very small share of tipped workers the state

Latinos in New York City who work in predominately tipped occupations earn significantly less than other tipped workers in the city. However, white tipped workers have the lowest median hourly earnings in the state, driven by low earnings for white tipped workers in the state outside of New York City. White tipped workers statewide earn, on average, only \$10.36 an hour including their tips. As will be detailed in subsequent sections, white tipped workers, particularly those outside New York City, are more likely to be dependent children in households with other sources of income compared to tipped workers in New York City. Latinos in New York City earn, on average, \$11.41 an hour. Once again, it is worth noting the higher costs of living in New York City compared to the rest of the state.

### Tipped workers are more than twice as likely to live in poverty

Due to their low wages, tipped workers in New York are more than twice as likely to live in poverty as workers in non-tipped occupations. Tipped workers in the state have a poverty rate of 15.7 percent, compared to 6.8 percent for those who are employed in non-tipped occupations. In New York City, the poverty rate for tipped workers is 16.8 percent, compared to 7.8 percent for those in non-tipped occupations.

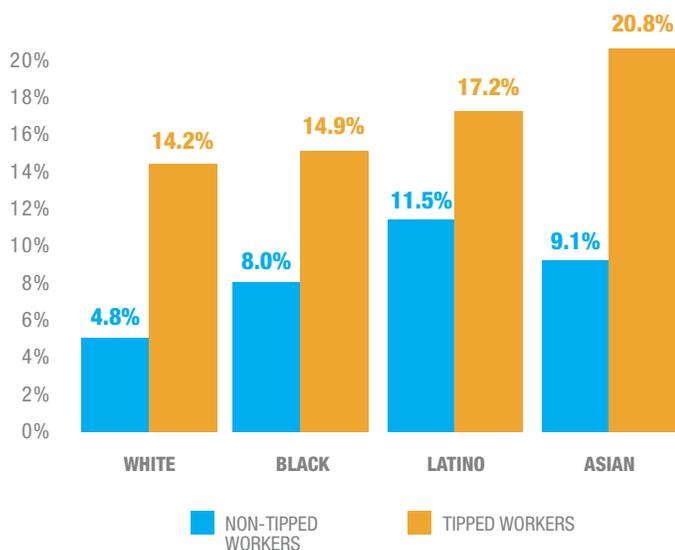
**CHART 3: POVERTY RATE BY TYPE OF OCCUPATION IN NEW YORK**



Source: 2010-2012 American Community Survey, three year pooled sample. Includes those who are 16 years of age and older, employed but not self-employed, and earned wages

The poverty rates for Latinos and Asians in New York who work in predominately tipped occupations are 17.2 and 20.8 percent respectively, significantly higher than the overall statewide poverty rate of 16 percent. In New York City, the poverty rates for Latinos and Asians in these occupations are 18.5 and 21.1 percent respectively.

**CHART 4: POVERTY RATE BY RACE/ETHNICITY AND TYPE OF OCCUPATION FOR NEW YORK STATE**

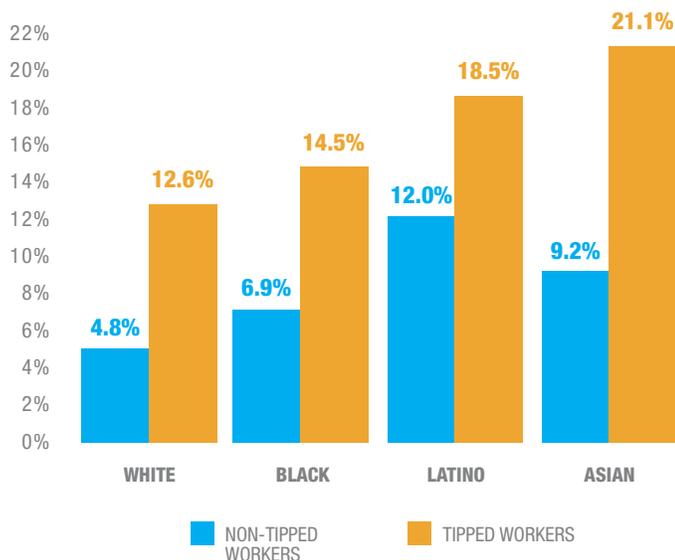


Source: 2010-2012 American Community Survey, three-year pooled sample; includes those who are 16 years of age and older, employed but not self-employed, and earned wages

We noted earlier that the median hourly wage for white tipped workers statewide is lower than that for Latinos and Asians. However, their poverty rate is only 14.2 percent. Similarly, Latino tipped workers in New York City earn less than Asian tipped workers, but are less likely to live in poverty.

Differences in household composition and income can explain the higher poverty rates among groups with higher earnings. The poverty threshold increases with each additional family member. As Table 5 shows, white tipped workers statewide, on average, live in households with fewer family members, requiring less income to keep them out of poverty. Asian tipped workers in New York City are not only more likely to live in larger households, but they are more likely to be the head of the household and providing for children. Despite lower earnings—and working fewer hours—white tipped workers statewide are less likely to live in poverty because they are less likely to be the sole or primary income earner for the household.

**CHART 5: POVERTY RATE BY RACE/ETHNICITY AND TYPE OF OCCUPATION FOR NEW YORK CITY**



Source: 2010-2012 American Community Survey, three-year pooled sample; includes those who are 16 years of age and older, employed but not self-employed, and earned wages.

**TABLE 5: HOUSEHOLD COMPOSITION AND INCOME OF TIPPED WORKERS IN ACCOMMODATION AND FOOD SERVICES**

|   | White workers statewide | Asian workers in New York City | Latino workers in New York City |
|---|-------------------------|--------------------------------|---------------------------------|
| Average number of family members in household | 2.59                    | 3.75                           | 3.22                            |
| Head of household/spouse                      | 35.1%                   | 67.5%                          | 35.3%                           |
| With children under 18                        | 18.9%                   | 35.5%                          | 27.4%                           |
| Median household income                       | \$68,083                | \$52,000                       | \$55,220                        |

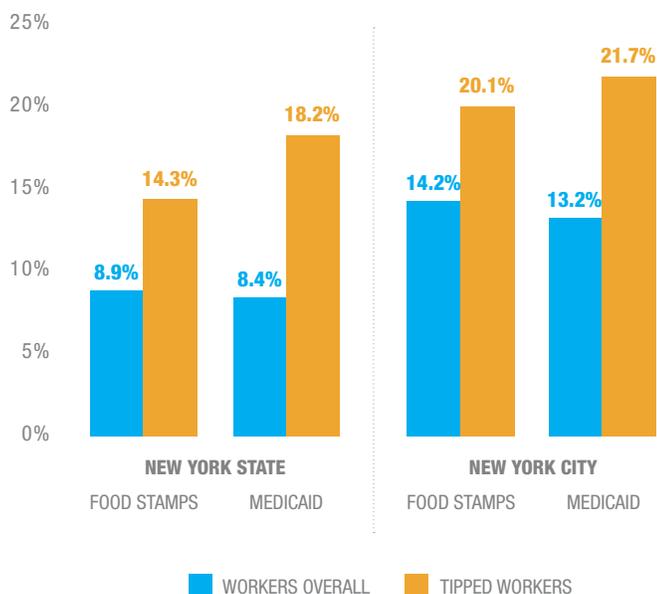
Source: 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages; and 2010-2012 American Community Survey, three-year pooled sample; includes those who are 16 years of age and older, employed but not self-employed, and earned wages.

**Tipped workers are more reliant on public benefits and face more material hardships than workers overall**

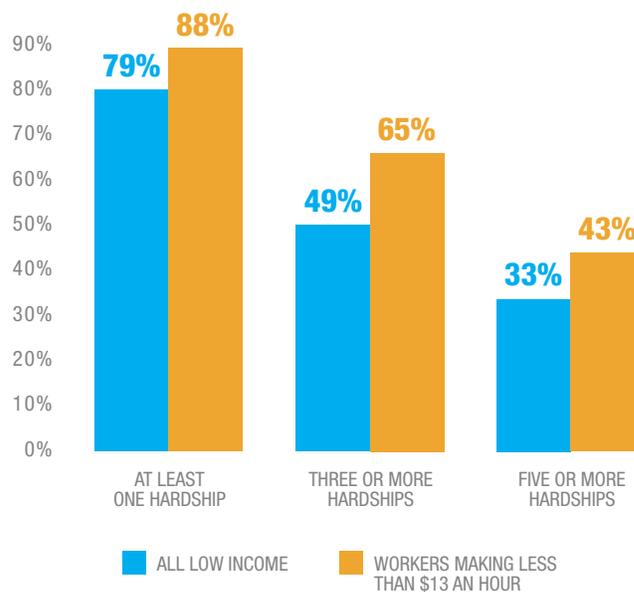
Due to their lower earnings and higher rates of living at or near poverty, tipped workers are more likely than workers overall to rely on public assistance such as food stamps and Medicaid. In the state, 14.3 percent of tipped workers receive food stamps (formally known as the Supplemental Nutrition Assistance Program, or SNAP) and 18.2 percent receive health insurance through Medicaid. In comparison, 8.9 percent of the overall workforce receives food stamps and 8.4 percent receive Medicaid. In New York City, 20.1 percent of tipped workers use food stamps and 21.7 percent receive Medicaid, compared to 14.2 percent and 13.2 percent of the overall workforce who receive food stamps and Medicaid, respectively.

The Community Service Society's annual Unheard Third survey tracks the hardships experienced by New York City residents related to health care, housing, food insecurity, and meeting basic expenses. In order to get a sense of the hardships experienced by tipped employees, we look at the hardships of those in the survey who reported earning less than \$13.00 an hour (between 50 and 60 percent of New York City tipped workers earn less than \$13.00 an hour). According to the 2014 survey, 88 percent of respondents who reported earning less than \$13.00 an hour experienced at least one serious material hardship; 65 percent reported experiencing three or more hardships; and 43 percent reported facing at least *five* hardships. Forty-three percent of respondents earning less than \$13.00 an hour reported falling behind in their rent or mortgage, and 30 percent reported often not being able to afford subway and bus fares. The low-income population as a whole (those below 200 percent of the federal poverty level) experienced fewer hardships, with 79 percent reporting at least one hardship, 49 percent reporting three or more, and 33 percent reporting five or more hardships.

**CHART 6: FOOD STAMP AND MEDICAID UTILIZATION BY TYPE OF OCCUPATION**



**CHART 7: HARDSHIP PROFILE OF NEW YORK CITY RESIDENTS BY HOURLY WAGE AND HOUSEHOLD INCOME LEVEL**



Source: 2010-2012 American Community Survey, three-year pooled sample; includes those who are 16 years of age and older, employed but not self-employed, and earned wages.

Source: 2014 Unheard Third Survey

## Demographic Characteristics of Tipped Workers in New York State and City

One argument against increases in the minimum wage, including the tipped minimum wage, is that minimum wage workers are young—in many cases students—and it is therefore not imperative for them to earn family-sustaining wages. However, a recent study from the Center for Economic Policy Research showed that low-wage workers are significantly older and better educated than they were thirty years ago.<sup>8</sup> And looking at New York’s tipped workers, there are notable differences between tipped workers in New York City and those in the rest of the state and the nation.

### Tipped Workers in New York City are older and more likely to head households

Table 6 shows that while tipped workers in New York outside of New York City look much like the rest of the nation, tipped workers in New York City are different in a variety of ways. There are clear differences in gender, race/ethnicity, and immigration status, but perhaps most important are the differences in age, school enrollment, role in the household, and hours worked. It is these characteristics that suggest whether or not tipped workers are more often young people earning some extra money while they study, or independent adults working to support a family.

Only a quarter of tipped workers in New York City are under 25 years of age, compared to 43 percent in the rest of the state and 45 percent nationally. And just under a quarter of those young workers in New York City are in school, compared to over half of 16 to 24 year old tipped workers in the rest of the state and 46 percent nationally.

**TABLE 6: CHARACTERISTICS OF TIPPED WORKERS IN ACCOMMODATION AND FOOD SERVICES**

|                                | Nation-wide | NYS   | NYC   | NYS, outside NYC |
|--------------------------------|-------------|-------|-------|------------------|
| <b>Sex</b>                     |             |       |       |                  |
| Male                           | 35.6%       | 47.3% | 63.4% | 31.5%            |
| Female                         | 64.4%       | 52.7% | 36.6% | 68.5%            |
| <b>Race</b>                    |             |       |       |                  |
| White                          | 64.7%       | 53.4% | 26.1% | 79.9%            |
| Black                          | 6.8%        | 6.5%  | 9.4%  | 3.7%             |
| Asian                          | 5.5%        | 14.4% | 25.8% | 3.3%             |
| Latino                         | 19.3%       | 23.9% | 37.4% | 10.8%            |
| Other                          | 2.8%        | 1.8%  | 1.3%  | 2.2%             |
| <b>Age</b>                     |             |       |       |                  |
| 16 to 24                       | 44.6%       | 34.4% | 25.1% | 43.4%            |
| 25–34                          | 27.6%       | 32.0% | 39.6% | 24.6%            |
| 35–44                          | 12.1%       | 13.4% | 14.4% | 12.4%            |
| 45–54                          | 9.6%        | 11.8% | 11.7% | 11.8%            |
| 55–64                          | 4.4%        | 6.6%  | 7.8%  | 5.4%             |
| 65+                            | 1.5%        | 1.8%  | 1.3%  | 2.3%             |
| <b>Education</b>               |             |       |       |                  |
| < HSD                          | 15.7%       | 16.6% | 21.2% | 12.2%            |
| HSD only                       | 31.6%       | 32.5% | 33.8% | 31.3%            |
| Some college                   | 41.5%       | 34.6% | 28.2% | 40.9%            |
| BA or higher                   | 11.2%       | 16.3% | 16.8% | 15.7%            |
| <b>Relationship to HH head</b> |             |       |       |                  |
| Head/Spouse                    | 35.3%       | 40.4% | 43.5% | 37.4%            |
| Child                          | 29.2%       | 27.3% | 15.8% | 38.5%            |
| Other Relative                 | 5.4%        | 5.6%  | 8.4%  | 2.9%             |
| Not a family member            | 30.2%       | 26.7% | 32.3% | 21.2%            |
| <b>Nativity</b>                |             |       |       |                  |
| Native Born                    | 81.0%       | 60.0% | 32.9% | 86.4%            |
| Foreign Born                   | 19.0%       | 40.0% | 67.1% | 13.6%            |
| <b>In School*</b>              |             |       |       |                  |
| Yes                            | 49.8%       | 42.7% | 24.3% | 53.1%            |
| No                             | 50.2%       | 57.3% | 75.7% | 46.9%            |
| <b>Work Hours</b>              |             |       |       |                  |
| Full time                      | 45.7%       | 56.8% | 77.7% | 36.3%            |
| Part time                      | 54.3%       | 43.2% | 22.3% | 63.7%            |

**Source:** 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

\*16-24 year olds only

Nationally, nearly thirty percent of tipped workers are children of the head of the household, and in New York outside of New York City that number rises to nearly 40 percent. In New York City, only 16 percent of tipped workers are dependent children, and 44 percent are the head of the household or a spouse.

Role in the household, age, and school enrollment likely drive whether or not workers are part-time or full-time employees. In New York City, 78 percent of tipped workers are employed full-time, compared to 36 percent in the state outside of New York City and 46 percent nationally.

While the notion that many tipped workers are young and dependent on others to support a household may still hold some truth nationwide, the story for tipped workers in New York City is different. Tipped workers in New York City are far more likely to be older with incomes needed to support families.

## The Impact of Different Tipped Minimum Wage Policies

Seven states, as of 2014, do not allow for any tip credit, meaning tipped workers receive the same minimum wage as all other workers. In all of these states, the minimum wage is higher than the federal standard of \$7.25 an hour. In this section, we will examine how tipped workers in these states fare in terms of earnings and poverty.

The following definitions will be helpful in this section:

**Full tip credit state:** a state where the tipped minimum wage is equal to the federal tipped minimum wage of \$2.13 an hour

**Partial tip credit state:** a state where the tipped minimum wage is higher than the federal tipped minimum wage, but still lower than the state's minimum wage

**No tip credit state:** a state in which there is only one minimum wage that covers all workers regardless of their tips

## States with no tip credit have higher median wages than states with a tip credit

In the seven states where tipped workers receive the same minimum wage as all other workers, median hourly earnings for tipped workers are higher than in states with a tip credit. Median hourly earnings for tipped workers in these states are \$11.25 an hour, compared to \$10.15 an hour in states that allow a partial tip credit, and \$9.50 an hour in states that maintain the federal tipped minimum wage of \$2.13 an hour. In states with one minimum wage covering all workers, median hourly earnings are 63 percent of earnings for all workers, compared to 58 percent in partial tip credit states and 59 percent in states with a \$2.13 an hour tipped minimum wage.

**TABLE 7: MEDIAN HOURLY EARNINGS INCLUDING TIPS**

|   | All Workers | Tipped Workers | Tipped workers earnings % of all workers |
|---|-------------|----------------|--|
| Tipped minimum wage of \$2.13 an hour (full tip credit)                           | \$16.02     | \$9.50         | 59%                                      |
| Tipped minimum wage above \$2.13 an hour, below minimum wage (partial tip credit) | \$17.42     | \$10.15        | 58%                                      |
| Tipped minimum wage equal to minimum wage (no tip credit)*                        | \$17.95     | \$11.25        | 63%                                      |

\*The seven states that do not have a separate minimum wage for tipped workers are: Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington. We also include Hawaii in the no tip credit category because their tipped minimum wage is only \$0.25 less than the minimum wage.

**Source:** 2011-2013 Current Population Survey, pooled sample, outgoing rotation groups; includes those 16 years of age and over who are employed, but not self-employed, and earned wages.

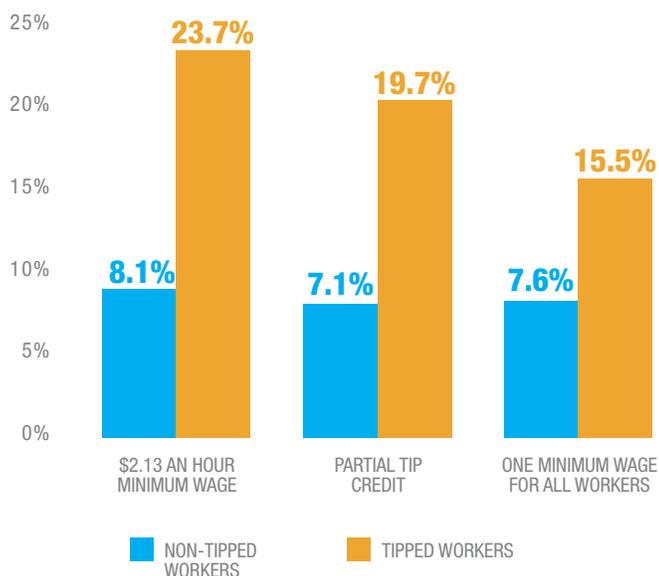
## Poverty is lower among tipped workers in states with no tip credit

In states with a single minimum wage covering all workers, the poverty rate for tipped workers is 8.2 percentage points lower than in states that allow for a \$2.13 an hour minimum wage, and 4.2 percentage points lower than in states with a partial tip credit. In states with a single minimum wage, the poverty rate for tipped workers is 2.04 times higher than the poverty rate for non-tipped workers; however it is 2.77 times higher in partial tip credit states and nearly three times higher in states with a \$2.13 an hour tipped minimum wage.

## Research suggests New York could eliminate the tip credit without hurting the restaurant industry

Concerns about possible negative impacts on employment in the restaurant industry from increasing the minimum wage for tipped workers are mitigated by two factors. First, a significant share of tipped workers in food services already reports a base salary of at least the current minimum wage of \$8.00 an hour. In the state, half of tipped workers reported a base wage of at least \$8.00 an hour, and in New York City, 60 percent of workers reported a base wage of at least \$8.00 an hour. An elimination of the tip credit would not affect all workers—only those at the bottom end of the wage distribution.

**CHART 8: POVERTY BY OCCUPATION TYPE AND TIPPED MINIMUM WAGE POLICY**



**Source:** 2010-2012 American Community Survey, three-year pooled sample; includes those who are 16 years of age and older, employed but not self-employed, and earned wages.

Second, it is likely that eliminating the tip credit would be gradual and the tipped minimum wage would not reach the value of the full minimum wage for several years. Research shows that modest increases to the minimum wage do not have an adverse impact on employment. Card and Krueger (1994, 2000) examined fast-food employment in New Jersey before and after a minimum wage increase and compared it to neighboring Pennsylvania where there was no change in the minimum wage.<sup>9</sup> They found that the increase in the minimum wage in New Jersey had no adverse impact on fast-food restaurant employment. Dube, Lester, and Reich (2010) replicated aspects of Card and Krueger’s study on a national scale.<sup>10</sup> Their study looked at restaurant employment in every set of neighboring counties across state borders with different minimum wage policies. They found that increases in the minimum wage led to increased earnings for workers and reduced turnover, but had no effect on employment. Businesses are able to deal with modest minimum wage increases through a variety of channels, from improvements in efficiency to wage compression to reduced turnover.<sup>11</sup> An increase in the minimum wage will also result in increased spending from workers earning more money, providing a source of stimulus for the local economy.

## Public Opinion on the Tipped Minimum Wage

In New York City, we found strong public support for raising the tipped minimum wage in New York so that it is equal to the overall minimum wage. In a poll for the 2014 Unheard Third, a Community Service Society survey of New York City residents, eighty percent of respondents said they would favor raising the tipped minimum wage to \$8.00 an hour, including two-thirds who said they would strongly favor an increase. Support for the increase was high among both low and moderate to higher income New Yorkers. Eighty-six percent of low-income respondents favor the increase, as do 76 percent of moderate to higher income New Yorkers. Support was particularly intense among low-income Latinos, 88 percent of whom favor an increase in the tipped minimum wage, with 78 percent strongly in favor.

Support for increasing the tipped minimum wage also cuts across party affiliation. Democrats are most supportive of the increase, with 84 percent in favor. Sixty-eight percent of Republicans also favor an increase, including over 50 percent who are strongly in favor. Over three-quarters of Independent respondents are in favor of an increase.

## Conclusion

The issue of wage stagnation has gained prominence in the political and policy landscape, and minimum wage increases have become a hotly debated topic in legislatures all over the country. With polling showing widespread public support, many localities are passing increases to the minimum wage that go well beyond the federal standard of \$7.25 an hour, and in many cases include indexing for inflation so that the minimum wage continues to keep pace with rising costs. Political gridlock at the federal level has ensured no such increases to the federal minimum wage, and the tipped minimum wage remains at \$2.13 an hour, where it has been since 1991.

New York is among the states with a tipped minimum wage higher than the paltry federal standard, but still lower than

the statewide minimum wage. Hearings are set for the end of 2014 on whether or not there should be an increase to the tipped minimum wage in New York to correspond with the pay increase other minimum wage workers received at the beginning of the year.

While New York City's tipped workers do seem to benefit from working in a city where tipped services can often be more expensive, resulting in greater tips and earnings, the city's higher cost of living dampens the potential benefit of slightly higher earnings. When looking at the state outside of New York City, New York's tipped workers earn significantly less than tipped workers in states that do not have a separate minimum wage for tipped workers.

New York City's tipped workers are different than minimum wage workers across the country and the rest of the state in a variety of ways. Most notably, New York City's tipped workers are more likely to be older and heading households with children, and less likely to be going to school and working part-time. This is why, despite, their slightly higher earnings, tipped workers in New York City are much more likely to live in poverty than workers in the rest of the state, even those who earn less hourly and work fewer hours. Tipped workers in New York City are more likely to live in poverty than tipped workers in states that do not have a separate minimum wage for tipped workers.

Tipped workers in New York State and New York City are much more likely to rely on public benefits compared to workers in non-tipped occupations. The increased reliance on food stamps, Medicaid, and other public benefits represents a shift in labor costs to the public.

Fears that an increase in the tipped minimum wage will lead to a reduction in employment in the hospitality industry appear to be unfounded. If New York were to eliminate the tip credit, and no longer draw distinctions in its minimum wage, it is unlikely that restaurants and bars would suddenly have to stop hiring or close up shop. Workers would start earning better wages, reducing poverty and reliance on public benefits, and providing more economic stability for families that rely on tipped income to survive.

## Endnotes

1. Tipped workers in non-hospitality industries, such as nail technicians and car wash workers, did receive an increase from \$5.00 an hour to \$6.05 or \$6.80 an hour depending on the amount of tips they receive.
2. A small number of those included in this analysis are in the other amusement, gambling, and recreation sub-industry, a subset of the arts, entertainment, and recreation industry. For the purposes of this report, we will include this group within the food services and accommodation industry.
3. In determining which occupations to include as tipped occupations for this report, we looked at the Current Population Survey question asking respondents if they received tips, overtime, or commission. We selected those occupations in the food services and accommodation industry in which a high percentage of respondents reported receiving tips, overtime, or commission and where they were likely to receive tips. Waiters and waitresses and bartenders, who are almost exclusively in the food services and accommodation industry, make up 86 percent of the tipped workers in our analysis. We excluded dining room, cafeteria attendants, and bartender helpers and food servers, non-restaurant when they were not in the food services and accommodation industry. Many of those workers are employed at schools and hospitals where they do not receive tips. However, we did include those occupations when they were in the food service and accommodation industry, which includes food runners, bussers, and food delivery people.
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