

# Minnesota Has Consistently Rejected a Lower Minimum Wage for Tipped Workers—and Minneapolis Should Not Consider One Now

## In the 30 Years Since it Became a One Fair Wage State, Minnesota Has Consistently Rejected a Lower Minimum Wage for Tipped Workers

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- Minnesota abolished its lower minimum wage for tipped workers in 1984.<sup>1</sup> Since then, it has rejected any and all efforts to return to the unfair tipped wage system under which tipped workers are guaranteed just a portion of the full minimum wage as their base salary.
- **The restaurant industry in Minnesota and the Twin Cities has thrived under a One Fair Wage system, and it has found the system manageable.** In fact, employment in Minnesota's restaurant industry is expected to grow by a healthy 8.3 percent by 2026, according to projections by the National Restaurant Association.<sup>2</sup>
- **Minnesota Democrats have fought and defeated efforts by Republicans to roll back the state's One Fair Wage and establish a lower minimum wage for tipped workers.** For example, when Governor Tim Pawlenty<sup>3</sup> blocked efforts to raise the state minimum wage unless there was a lower minimum wage for tipped workers, the legislature and worker advocates held strong for One Fair Wage and rejected his efforts.<sup>4</sup>

## One Fair Wage States and Cities That Are Transitioning to a \$15 Minimum Wage Have Rejected Attempts to Roll Back One Fair Wage

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- Other states and cities that, like Minnesota, have One Fair Wage have rejected restaurant industry attempts to condition a transition to a \$15 minimum wage on rolling back One Fair Wage.
- For example, **Los Angeles, San Francisco, California, and Portland, Oregon, are all phasing their minimum wages up to \$15 (\$14.75 for Portland), without rolling back One Fair Wage in the process.**<sup>5</sup>
- The restaurant industry is thriving in these One Fair Wage cities and states. In San Francisco, for example, the Golden Gate Restaurant Association did not oppose the city's \$15 minimum wage, and it reports that the industry continues to thrive as \$15 phases in.<sup>6</sup>

## Contrary to Restaurant Industry Claims, the Vast Majority of Tipped Workers Are Barely Getting by and Earn Very Low Wages

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- Restaurant servers and bartenders make up the greatest share (52 percent) of all tipped workers in Minneapolis.<sup>7</sup>
- While a small number of tipped waiters and waitresses at high-end Minneapolis restaurants may earn high incomes, most tipped wait staff try to get by on low wages.
- The most recent Bureau of Labor Statistics (BLS) data show that, between November 2012 and May 2015 (when the data was collected<sup>8</sup>), **the median wage including tips for restaurant servers** in the Minneapolis-St. Paul-Bloomington metropolitan area was **\$8.98 per hour**,<sup>9</sup> and the **mean (average) wage including tips for these workers was \$10.29**.
- For most of the period covered by the survey, the applicable minimum wage was \$7.25 per hour.<sup>10</sup> This means that **servers in the Minneapolis metropolitan area averaged somewhere between \$1.75 and \$3.00 an hour in tips – enough to lift them a few dollars above the minimum wage, but not the types of high incomes that the restaurant industry claims are typical.**
- **Instead, it is only the tiny group of servers at very high end restaurants who earn high wages.** The data show that **only the top 10% of restaurant servers (the 90<sup>th</sup> percentile) during that period earned wages and tips approaching \$15 an hour** (\$14.67 to be precise).<sup>11</sup>
- **If One Fair Wage for tipped workers is rolled back in Minneapolis, the gap in earnings between tipped workers and the average worker will widen. The median hourly wage for servers is already 55 percent lower than the median hourly wage for all workers** (\$20.14) in the Minneapolis metro.<sup>12</sup>
- **Moreover, other tipped workers like car wash workers, bellhops, parking lot attendants, and airport workers who assist elderly or disabled passengers are struggling even more, averaging even less in tips.**<sup>13</sup>

## A Sub-minimum wage for Tipped Workers is Linked to Higher Rates of Poverty and Economic Insecurity

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- **Tipped workers are almost twice as likely to live in poverty as other workers**<sup>14</sup> as a result of low pay and the precariousness of tipped occupations.
- Because their pay is so low, tipped workers are forced to rely on public benefits at a significantly higher rate than other workers. About 46 percent of tipped workers nationwide rely on federal public benefits programs while non-tipped workers rely on these programs at a rate of about 36 percent.<sup>15</sup>
- Tipped workers are forced to live on unpredictable incomes and schedules. Their take-home pay fluctuates widely depending on the seasons, the shift they get, and the generosity of patrons. On average, tipped workers in Minnesota work 29.5 hours per week, and restaurant servers work just 26.3 hours per week.<sup>16</sup> In comparison, the average number of hours worked for all employees in the private sector in Minnesota was nearly full-time (34.0 hours per week) in 2015<sup>17</sup>—a significant difference that reflects the precarious nature of tipped occupations, particularly in the restaurant industry.
- The unpredictable schedules of tipped occupations make it impossible to make ends meet. The lack of a stable and reliable base income makes it difficult to plan a family budget, with particularly grave effects for workers in the Twin Cities, who face high costs of living.

- According to analysis by the National Low Income Housing Coalition, single workers in the Minneapolis/St. Paul/Bloomington metropolitan area needed to earn a “housing wage” between \$12.62 and \$15.63 per hour in 2014 to be able to afford rent for a studio or 1-bedroom apartment and to pay for other basic necessities.<sup>18</sup> Adjusted for inflation, the housing wage in the Twin Cities was \$12.79 and \$15.85 in 2016.<sup>19</sup> By 2022, single workers will need to earn a housing wage between \$15.08 and \$18.68 per hour. Parents raising children, who need at a minimum a 2-bedroom apartment, will need at least \$23.60 per hour by 2022 to put a roof over their families’ heads and provide them with other basics.<sup>20</sup>

## One Fair Wage is an Issue of Equality for Women Workers

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- There are over 4 million tipped workers in the U.S, and the majority of them are women. **Approximately two-thirds of workers in tipped occupations are women**, and of the food servers and bartenders who represent more than half of tipped workers, women account for about 70 percent of workers.<sup>21</sup>
- Not only does a sub-minimum wage for tipped workers disproportionately impact women’s take home pay, it also leaves them vulnerable to sexual harassment and other inappropriate conduct by customers. According to a survey by the Restaurant Opportunities Center United (ROC-United), female restaurant workers in states with a sub-minimum tipped wage of \$2.13 per hour are twice as likely to experience sexual harassment as women in states that do not have a sub-minimum tipped wage.<sup>22</sup>
- This is because tipped workers earning a sub-minimum wage are dependent on the generosity of customers for the bulk of their income, rather than on their employers. They must often tolerate inappropriate behavior from customers and are vulnerable to sexual harassment from coworkers and managers.<sup>23</sup>
- Not surprisingly, **the restaurant industry is the largest source of sexual harassment claims in the U.S.** While 7 percent of American women work in the restaurant industry, this industry is responsible for 37 percent of all sexual harassment claims to the U.S. Equal Employment Opportunity Commission.<sup>24</sup>

## The Tipped Minimum Wage is a Unique, Unfair, and Unnecessary Subsidy for the Restaurant Industry and Other Tipped Industries

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- In states where a tip credit is allowed, tips have essentially become a way for employers to transfer the responsibility for paying their employees’ wages onto the customer.
- No other industries are subsidized this way.
- The transfer of wage responsibilities was not the intended purpose of tips or gratuities. They were intended to reward good service, not substitute wages.

## Minnesota is One of Eight States without a Tipped Sub-minimum Wage; These States Have Fast-Growing Restaurant and Hospitality Sectors

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- Eight states, including Minnesota, do not have a tipped minimum wage. The eight One Fair Wage states are California, Nevada, Washington, Minnesota, Alaska, Oregon, Montana, and Maine. (Maine’s One Fair Wage policy was adopted by ballot initiative most recently in November 2016). And, as noted above, at least 16 localities, including Seattle (which is

increasing its minimum wage to \$15) and cities and counties in California that are also going to \$15 an hour do not have a lower tipped minimum wage.<sup>25</sup>

- One Fair Wage states represent some of the fastest-growing states for the restaurant and hospitality sectors. See NELP and ROC-United's report, *The Case for Phasing Out Maine's Subminimum Wage for Tipped Workers*, for additional details.<sup>26</sup>

## **A Growing Movement Is Advocating for—and Winning—One Fair Wage; It Would Be a Mistake for Minneapolis to Move in the Opposite Direction**

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- A **growing national movement for One Fair Wage** has brought to the fore the need to abolish the sub-minimum tipped wage with increasing success.
- In November 2016, this movement won its first and most significant victories over the past three decades when voters in **Maine and Flagstaff, AZ, approved the gradual elimination of the sub-minimum wage for tipped workers** over seven years.
- At the federal level, both of the current bills in Congress to raise the federal minimum wage to \$12 and \$15 include the adoption of One Fair Wage nationally by gradually phasing out the lower tipped minimum wage.<sup>27</sup>
- These federal bills have been backed by former **President Obama**,<sup>28</sup> **Secretary Hillary Clinton**,<sup>29</sup> **Senator Bernie Sanders**,<sup>30</sup> and over two hundred members of Congress, including **Minnesota Senators Amy Klobuchar and Al Franken, and Minnesota Representatives Keith Ellison and Betty McCollum**, among many others.<sup>31</sup>
- **Minnesota Representative Keith Ellison is the lead congressional sponsor** of the federal bill that would phase in both a \$15 minimum wage and One Fair Wage.<sup>32</sup>

## **The Tipped Sub-minimum Wage System is Difficult to Administer and Enforce; It Would Add Undesired Complexity to Minneapolis Wage Law**

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- While employers are required by law to cover the difference between a tipped employee's tips and the minimum wage when an employee does not make enough in tips to bring them up to the full minimum wage, the complexity of the tipped credit system makes it difficult to monitor and enforce.<sup>33</sup>
- It is not surprising, then, that a survey of tipped workers found that about 10 percent were paid below the federal minimum wage, and that from 2010–2012, the U.S. Department of Labor found an 84 percent noncompliance rate when it conducted nearly 9,000 investigations in the restaurant industry.<sup>34</sup>
- By adopting a lower minimum wage for tipped workers, Minneapolis would add an undesired level of complexity to its wage laws, making compliance more difficult for employers in the city.<sup>35</sup>

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### **ENDNOTES**

<sup>1</sup> Richard R. Nelson, "State Labor Legislation Enacted in 1984," *Monthly Labor Review*, January 1985, <https://www.bls.gov/opub/mlr/1985/01/art3full.pdf>.

<sup>2</sup> National Restaurant Association and Minnesota Restaurant Association, *Minnesota Restaurant Industry at a Glance*, June 2016, [http://www.mnrestaurant.org/uploads/2/8/9/5/28957157/mn\\_industry\\_at\\_a\\_glance\\_june\\_2016.pdf](http://www.mnrestaurant.org/uploads/2/8/9/5/28957157/mn_industry_at_a_glance_june_2016.pdf).

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- <sup>3</sup> Kevin Duchscherer, "Pawlenty Rejects Minimum Wage Hike," *Star Tribune*, May 15, 2008, <http://www.startribune.com/pawlenty-rejects-minimum-wage-hike/18991554/>.
- <sup>4</sup> Workday Minnesota, *Minimum Wage Veto Triggers Response from Worker Advocates*, May 18, 2008, <http://www.workdayminnesota.org/articles/minimum-wage-veto-triggers-response-worker-advocates>.
- <sup>5</sup> National Employment Law Project, "Minimum Wage by State," *RaiseTheMinimumWage.com*, <http://raisetheminimumwage.com/wages-by-state/>.
- <sup>6</sup> Samantha Higgins, Golden Gate Restaurant Association, *The State of the Industry: An Update from GGRA's Executive Director*, April 20, 2016, <http://ggra.org/the-state-of-the-industry-an-update-from-ggras-executive-director/>.
- <sup>7</sup> National Employment Law Project analysis of Bureau of Labor Statistics, *May 2015 State Occupational Employment and Wage Estimates, Minneapolis-St. Paul-Bloomington, MN-WI*, [https://www.bls.gov/oes/current/oes\\_33460.htm](https://www.bls.gov/oes/current/oes_33460.htm)
- <sup>8</sup> The *May 2015 Occupational Employment and Wage Estimates* were calculated using data collected in May 2015, November 2014, May 2014, November 2013, May 2013, and November 2012 semi-annual panels. For more information, see Bureau of Labor Statistics, Occupational Employment Statistics, Frequently Asked Questions, "Why Does the OES Program Produce Estimates from More than One Year's Data?", revised December 27, 2016, [https://www.bls.gov/oes/oes\\_ques.htm](https://www.bls.gov/oes/oes_ques.htm).
- <sup>9</sup> Bureau of Labor Statistics, op. cit.
- <sup>10</sup> Because the state minimum wage at this time was \$6.15 per hour, the higher federal minimum wage of \$7.25 applied. For state and federal rates, see Department of Labor, Wage and Hour Division, *Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2016*, revised December 2016, <https://www.dol.gov/whd/state/stateMinWageHis.htm>.
- <sup>11</sup> *Ibid.*
- <sup>12</sup> National Employment Law Project analysis of Bureau of Labor Statistics, op. cit.
- <sup>13</sup> *Ibid.*
- <sup>14</sup> Sylvia Allegretto and David Cooper, *Twenty-Three Years and Still Waiting for Change*, Economic Policy Institute and the Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, University of California-Berkeley, July 10, 2014, <http://www.epi.org/files/2014/EPI-CWED-BP379.pdf>.
- <sup>15</sup> Allegretto and Cooper, op. cit.
- <sup>16</sup> Restaurant Opportunities Center United analysis of the *American Community Survey*, 2012–2015.
- <sup>17</sup> Minnesota Department of Employment and Economic Development, *Current Employment Statistics, Nonagricultural Wage & Salary Employment, Hours and Earnings, Minnesota: Total Private*, <https://apps.deed.state.mn.us/lmi/ces/ResultDetails.aspx?ind=05000000&title=Total%20Private>.
- <sup>18</sup> National Low Income Housing Coalition, *Out of Reach 2016: Minnesota*, <http://nlihc.org/oor/minnesota>.
- <sup>19</sup> Bureau of Labor Statistics, *CPI Inflation Calculator*, <https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=13.09&year1=2014&year2=2016>.
- <sup>20</sup> National Employment Law Project analysis of the National Low Income Housing Coalition's *Out of Reach 2016* data. Assumes modest rate of inflation of 2 percent, and no median wage growth.
- <sup>21</sup> Allegretto and Cooper, op. cit.
- <sup>22</sup> Restaurant Opportunities Center United and National Employment Law Project, *The Case for Phasing Out Maine's Subminimum Wage for Tipped Workers*, October 2016, <http://www.nelp.org/content/uploads/Maine-Sub-Minimum-Wage-Report.pdf>.
- <sup>23</sup> *Ibid.*
- <sup>24</sup> *Ibid.*
- <sup>25</sup> National Employment Law Project, "Minimum Wage by State, Tipped Minimum Wage," *RaiseTheMinimumWage.com*, <http://raisetheminimumwage.com/wages-by-state/>.
- <sup>26</sup> Restaurant Opportunities Center United and National Employment Law Project, op. cit.
- <sup>27</sup> Raise the Wage Act, H.R.2150; S.1150, 114th Congress (2015–2016); Pay Workers a Living Wage Act, H.R. 3164; S.1832, 114th Congress (2015–2016).
- <sup>28</sup> The White House, Raise the Wage, <https://www.whitehouse.gov/raise-the-wage> (last viewed Oct. 6, 2016) (noting that the "Obama Administration has expressed support for the Raise the Wage Act").
- <sup>29</sup> Daniel Marans, "Hillary Clinton Takes a Stand Against 'Subminimum Wage' for People with Disabilities," Mar. 29, 2016, *The Huffington Post*, available at [http://www.huffingtonpost.com/entry/hillary-clinton-subminimum-wage-people-with-disabilities\\_us\\_56faf630e4b083f5c605ef20](http://www.huffingtonpost.com/entry/hillary-clinton-subminimum-wage-people-with-disabilities_us_56faf630e4b083f5c605ef20) (noting that Hillary Clinton supports eliminating the tipped minimum wage).
- <sup>30</sup> Bernie 2016, Sanders Statement on New York and California Minimum Wage Increase, Apr. 4, 2016, available at <https://berniesanders.com/sanders-statement-new-york-california-minimum-wage-increase/>.
- <sup>31</sup> Raise the Wage Act, H.R.2150; S.1150, 114th Congress (2015–2016); Pay Workers a Living Wage Act, H.R. 3164; S.1832, 114th Congress (2015–2016).
- <sup>32</sup> Pay Workers a Living Wage Act, H.R. 3164, 114th Congress (2015–2016).
- <sup>33</sup> *Ibid.*
- <sup>34</sup> Restaurant Opportunities Center United, *Recipe for Success: Abolish the Subminimum Wage to Strengthen the Restaurant Industry*, March 2014, [http://rocunited.org/wp-content/uploads/2014/03/ROCUnited\\_Recipe-for-Success.pdf](http://rocunited.org/wp-content/uploads/2014/03/ROCUnited_Recipe-for-Success.pdf).
- <sup>35</sup> Restaurant Opportunities Center United and National Employment Law Project, op. cit.

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