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November 13, 2014

New York Department of Labor
Attn: Wage Board
Building 12, Room 586
Harriman State Office Campus
Albany, NY 12240

Re: A Method for Setting and Maintaining the Minimum Wage

Greetings:

I am a retired employee benefits consultant, having spent most of my career with regional actuarial consulting firms. My work experience allowed me to observe compensation practices in many types and sizes of employers with the result that I believe there is a compelling need for a minimum wage system that is fair and responsive. The current New York State minimum wage appears to be based on arbitrary values which seem more concerned with tidiness than economic appropriateness.

I would suggest that for the minimum wage system to be more rational, that the Basic Minimum Hourly Rate should be tied to overall market wage practices in some fashion. Then adjustments for the special circumstances found in the Hospitality Industry and for other workers such as farm, learning, disadvantage and youth can be set as functions (percentages) of the Basic Rate so that they will be self-adjusting as the overall economy progresses.

I have developed a method for setting and maintaining the basic minimum wage which I believe is simple, logical, accessible and fair. I understand that it would require legislative action, but as an example of how a market related rate could be created, let me briefly summarize it.

My proposal is to use the Social Security Administration's National Average Wage Index (AWI) as the basis for calculating the minimum wage and adjusting it for inflation. I chose the AWI rather than other data sources such as the Bureau of Labor Statistics wage survey data because the AWI is comprehensive and based on actual W-2 wages paid, rather than employer wage rate surveys. As such, I believe it is easy to understand, accessible and beyond reproach.

My proposal is simply to use one half of the five year rolling average of the AWI converted to an hourly rate. I use a five year average to reduce volatility and to facilitate estimates of future change important to business planning. Because it takes the SSA nearly a year to compile and

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calculate the AWI, I propose to set back the 5 year average by one year, so for example, the Minimum Wage for 2015 would be based on the five years ending December 31, 2013. This also allows the change in the Wage to be effective on January 1, which most businesses would prefer.

Attached is an illustration of the calculation for 2014 (\$10.15/ hr), for 2015 (\$10.32/hr.) and an estimate for 2016. The illustration also includes links to the SSA's description of how the AWI is calculated, the purposes for which it is presently used and past AWI values.

Under this system for Food Service Workers, the fixed percentage of the Basic Minimum Hourly Rate might be set at 50% which would equal \$5.16 for 2015 with an equal amount for Tip Credits. All other credits could follow in a similar manner.

Setting the percentages to be used may still be arbitrary, but if based on researched data they should result in practices that are fair to both employee and employer alike. And once set, if the Basic Minimum Hourly Rate is on "autopilot" and tied to overall wages, the system should function well without further political involvement.

In summary, while the politics relating to the minimum wage are difficult, I believe an approach such as I have outlined here offers a good opportunity for bipartisan acceptance. There may be local economies where a higher wage is needed to meet the cost of living, but setting the general minimum wage to 50% of average wages has historical precedent and is consistent with other proposals that are currently being considered by Congress.

For these reasons, I believe this proposal has considerable merit and I urge you to give it serious consideration.

Respectfully,



Andrew R. Graham
Certified Employee Benefit Specialist

Attachment

Minimum Wage Proposal

For Year Beginning Jan. 1, 2014

For Jan. 1, 2015

Estimated 2016

SSA National Average Wage Index (AWI)	2009	2010	2011	2012	2013	2014
2008	\$41,334.97	\$40,711.61	\$41,673.83	\$42,979.61	\$44,888.16	\$46,234.80 (1)
2009	\$40,711.61	\$41,673.83	\$42,979.61	\$44,888.16	\$46,234.80 (1)	\$220,098.07
2010	\$41,673.83	\$42,979.61	\$44,888.16	\$46,234.80 (1)		
2011	\$42,979.61	\$44,888.16	\$46,234.80 (1)			
2012	\$44,888.16					
2013	\$46,234.80 (1)					
2014	\$220,098.07					

Total	\$211,021.69	\$214,574.88	\$44,019.61
Average	\$42,204.34	\$42,914.98	\$22,009.81
1/2 Ave.	\$21,102.17	\$21,457.49	

Hrly Rate \$10.15 \$10.32 \$10.58

(Annual amt. divided by 2080 (40 hrs X 52 wks))

(1) 2013 incr. by 3%

Comment:

Social Security Administration's AWI is well established data used for many other calculations. It is simple, easy to understand, and accessible. It provides a market place, pay related basis for setting the Minimum Wage that falls mid-way between the Bureau of Labor Statistics (BLS) Tables B-3 (All Average Wages) and B-8 (Non-farm, Non-supervisory on Private Payrolls). As such, it is beyond reproach and not subject to political or special interest bickering. The use of a 5 year rolling average keeps the result relevant and diminishes volatility, thus making the future increases easy to estimate. The one year set back (the AWI is published in October) in the rolling average allows a January 1 effective change date, preferred by most businesses.

Social Security

Official Social Security Website

National Average Wage Index

Automatic

Latest index

Determinations

The national average wage index for 2013 is 44,888.16. The index is 1.28 percent higher than the index for 2012.

Cost-of-Living

Adjustment

Indexed earnings used to compute initial benefits

Graph of AWI series

When we compute a person's retirement benefit, we use the national average wage indexing series to index that person's earnings. Such indexation ensures that a worker's future benefits reflect the general rise in the standard of living that occurred during his or her working lifetime.

Recent indexed

program amounts

When indexing an individual's earnings for benefit computation purposes, we must first determine the year of first eligibility for benefits. For retirement, eligibility is at age 62. If a person reaches age 62 in 2015, for example, then 2015 is the person's year of eligibility. We always index an individual's earnings to the average wage level two years prior to the year of first eligibility. Thus, for a person retiring at age 62 in 2015, we would index the person's earnings to the average wage index for 2013, or 44,888.16. We would multiply earnings in a year before 2013 by the ratio of 44,888.16 to the average wage index for that year; we would take earnings in 2013 or later at face value. (See two examples of indexed earnings.)

Indexed program amounts

We use the average wage indexing series to update several amounts that are important to the operation of Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) program.

- OASDI contribution and benefit base (also known as the taxable maximum)
- Retirement earnings test exempt amounts
- Formulas for a primary insurance amount and maximum family benefits

- Amount of earnings needed to earn a quarter of coverage ("credit")
- "Old-law" contribution and benefit base (as determined under the law as in effect before the 1977 amendments)
- Coverage thresholds for both domestic employees and election workers
- Substantial gainful activity amounts for disabled beneficiaries and earnings that trigger a trial work period

In addition, the Pension Benefit Guaranty Corporation uses the national average wage index to compute flat-rate premiums for PBGC-insured single-employer and multiemployer plans, as required by the Deficit Reduction Act of 2005.

Determination of the National Average Wage Index for 2013

To determine the national average wage index for calendar year 2013, we multiplied the 2012 national average wage index of 44,321.67 by the percentage change in average wages from 2012 to 2013, as measured by annual wage data we tabulated. The wage data are based on wages subject to Federal income taxes and contributions to deferred compensation plans.

The average amounts of wages calculated directly from our data were \$42,498.21 and \$43,041.39 for 2012 and 2013, respectively. To determine the national average wage index for 2013 at a level that is consistent with the national average wage indexing series for prior years, we multiply the 2012 national average wage index of 44,321.67 by the percentage change in average wages from 2012 to 2013 (based on our tabulated wage data). In other words, the national average wage index for 2013 is 44,321.67 times 43,041.39 divided by 42,498.21, which equals 44,888.16.

The complete average wage indexing series is shown below.

National average wage indexing series, 1951-2013

<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>
1951	2,799.16	1976	9,226.48	2001	32,921.92

1952	2,973.32	1977	9,779.44	2002	33,252.09
1953	3,139.44	1978	10,556.03	2003	34,064.95
1954	3,155.64	1979	11,479.46	2004	35,648.55
1955	3,301.44	1980	12,513.46	2005	36,952.94
1956	3,532.36	1981	13,773.10	2006	38,651.41
1957	3,641.72	1982	14,531.34	2007	40,405.48
1958	3,673.80	1983	15,239.24	2008	41,334.97
1959	3,855.80	1984	16,135.07	2009	40,711.61
1960	4,007.12	1985	16,822.51	2010	41,673.83
1961	4,086.76	1986	17,321.82	2011	42,979.61
1962	4,291.40	1987	18,426.51	2012	44,321.67
1963	4,396.64	1988	19,334.04	2013	44,888.16
1964	4,576.32	1989	20,099.55		
1965	4,658.72	1990	21,027.98		
1966	4,938.36	1991	21,811.60		
1967	5,213.44	1992	22,935.42		
1968	5,571.76	1993	23,132.67		
1969	5,893.76	1994	23,753.53		
1970	6,186.24	1995	24,705.66		
1971	6,497.08	1996	25,913.90		
1972	7,133.80	1997	27,426.00		
1973	7,580.16	1998	28,861.44		
1974	8,030.76	1999	30,469.84		
1975	8,630.92	2000	32,154.82		

Social Security

Official Social Security Website

Average Wage Index (AWI)

Automatic Determinations

For detailed information on the average wage data for any year, including a distribution by wage level, select a year and click "Go."



We use the term "wages" to refer to net compensation.

Raw average wage data are presented in the table below. Note that an average wage is an average *per worker*, not an average per job. A change in the latest such average wage over the previous one is multiplied by the last AWI to produce the next AWI. A table showing average and median wage growth is available.

AWI series and underlying data

[Number of workers in thousands; aggregate wage amounts in millions]

Year	AWI series ^a		SSA raw data			
	AWI	Increase	Prior year average amount	Average amount	Current year Number of workers	Aggregate wages
1984	[see data for prior years]			\$15,250.75	112,666	\$1,718,239
1985	16,822.51	4.26%	\$15,250.75	15,900.51	114,922	1,827,321
1986	17,321.82	2.97%	15,900.51	16,372.45	115,135	1,885,046
1987	18,426.51	6.38%	16,372.45	17,416.59	119,557	2,082,269
1988	19,334.04	4.93%	17,416.59	18,274.38	122,797	2,244,036
1989	20,099.55	3.96%	18,274.38	18,997.93	126,909	2,411,003
1990	21,027.98	4.62%	18,997.93	19,875.47	127,554	2,535,192
1991						
^b	21,811.60	3.73%	20,172.11	20,923.84	126,208	2,640,753
1992	22,935.42	5.15%	20,923.84	22,001.92	127,106	2,796,569

1993	23,132.67	0.86%	22,001.92	22,191.14	128,728	2,856,628
1994	23,753.53	2.68%	22,191.14	22,786.73	130,571	2,975,294
1995	24,705.66	4.01%	22,786.73	23,700.11	134,212	3,180,838
1996	25,913.90	4.89%	23,700.11	24,859.17	136,561	3,394,789
1997	27,426.00	5.84%	24,859.17	26,309.73	139,349	3,666,228
1998	28,861.44	5.23%	26,309.73	27,686.75	141,760	3,924,866
1999	30,469.84	5.57%	27,686.75	29,229.69	145,061	4,240,084
2000	32,154.82	5.53%	29,229.69	30,846.09	148,114	4,568,731
2001	32,921.92	2.39%	30,846.09	31,581.97	148,282	4,683,048
2002	33,252.09	1.00%	31,581.97	31,898.70	148,069	4,723,210
2003	34,064.95	2.44%	31,898.70	32,678.48	147,722	4,827,338
2004	35,648.55	4.65%	32,678.48	34,197.63	149,439	5,110,451
2005	36,952.94	3.66%	34,197.63	35,448.93	151,603	5,374,177
2006	38,651.41	4.60%	35,448.93	37,078.27	153,853	5,704,593
2007	40,405.48	4.54%	37,078.27	38,760.95	155,570	6,030,057
2008	41,334.97	2.30%	38,760.95	39,652.61	155,435	6,163,387
2009	40,711.61	-1.51%	39,652.61	39,054.62	150,918	5,894,035
2010 ^c	41,673.83	2.36%	39,036.67	39,959.30	150,399	6,009,831
2011	42,979.61	3.13%	39,959.30	41,211.36	151,381	6,238,607
2012	44,321.67	3.12%	41,211.36	42,498.21	153,632	6,529,098
2013	44,888.16	1.28%	42,498.21	43,041.39	155,772	6,704,658

^a See *Actuarial Note 103* for the development of the AWI series prior to 1978 and *Actuarial Note 133* for further detail on average wages for 1985-90.

^b Data for 1991 and later include contributions to deferred compensation plans. The "prior year average amount" shown in this row includes contributions to deferred compensation plans and was used to calculate the increase in raw average wages from 1990 to 1991 on the same basis (both including deferred compensation contributions) and thus provide a smooth transition in the AWI series.

^c The "prior year average amount" shown in this row reflects improvements in the data edits we made for this calculation.