Community Service Society | Fighting Poverty Strengthening New York

Testimony by

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State Minimum Wage Regulations for Food Service Workers and Service Employees

Thank you for the opportunity to testify today on the issue of minimum wage regulations for food service workers and service employees in New York. My name is David R. Jones and I am President & CEO of the Community Service Society of New York (CSS). CSS is a 170 year-old organization that addresses the root causes of economic disparity through research, advocacy, and innovative program models that strengthen and benefit all New Yorkers.

Today, my organization released a report on the state of tipped workers in the accommodation and food services industry in New York. There are more than 172,000 tipped workers in New York in accommodation and food services, representing over a quarter of workers in an industry that has been growing rapidly in the recovery from the Great Recession. I will be focusing my comments today on New York City's roughly 85,000 tipped workers, who make up nearly half of the tipped workers in the state.

New York City's tipped workers are different from those in the rest of the state and nation

There are two important things that differentiate New York City's tipped workers from tipped workers in the rest of the state and the nation. First, simply by virtue of the city they live in, tipped workers in New York City have a higher cost of living – particularly when it comes to housing – than most tipped workers in the rest of the state and around the country.

As importantly, tipped workers in New York City are far more likely than tipped workers elsewhere to be older, full-time workers, and the primary or sole earners supporting a family. Only a quarter of tipped workers in New York City are under 25 years of age, compared to 45 percent nationally. 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. 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 for financial support may still hold some truth nationwide, the story for tipped workers in New York City is very different.

New York's tipped workers earn far less – even when including tips – than other workers; more likely to live in poverty

Our report found that tipped workers earn, on average, significantly less than the workforce as a whole even when including their tips. In New York City, median hourly earnings for tipped workers in accommodations and food services are $12.17 an hour, two-thirds of earnings for all workers in the city. This translates to $25,314 per year for a full-time, year round worker compared to $38,314 for workers in the city overall.

While the median hourly earnings for tipped workers are low, the situation for those at the lower end of the earnings spectrum is completely untenable. Thirty percent of New York City's tipped workers make less than $10 an hour including tips; between 20 and 30 percent do not earn enough including tips to keep a family of three out of poverty when working year round, full-time.

With a poverty rate of 16.8 percent, tipped workers in New York City are more than twice as likely to live in poverty as workers in non-tipped occupations. The situation for Latino and Asian tipped workers is especially dire. Latinos – who comprise 37 percent of tipped workers in the city – and Asians are the workers most likely to be the head of their household and supporting families with children. In New York City, the poverty rates for Latinos and Asians in tipped occupations are 18.5 and 21.1 percent respectively.

Tipped workers are more likely to rely on public assistance and experience greater hardships

Tipped workers are more likely than workers overall to rely on public assistance such as food stamps and Medicaid. In New York City, more than 1 out of 5 tipped workers use food stamps and 22 percent receive Medicaid. The increased reliance on food stamps, Medicaid, and other public benefits represents the shifting of costs from employers to the taxpayer.

The Community Service Society's annual Unheard Third survey tracks hardships experienced by New York City residents related to health care, housing, food insecurity, and meeting basic expenses. According to the 2014 survey, 88 percent of respondents who reported earning less than $13.00 an hour – the earning level of between 50 and 60 percent of New York City's tipped workers – 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 these respondents reported falling behind in their rent or mortgage, and 30 percent reported often not being able to afford subway and bus fares.

Increasing the tipped minimum wage won't cost jobs

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 New York City, 60 percent of tipped workers reported a base wage of at least $8.00 an hour. Eliminating the tip credit would not affect all workers – only those at the bottom end of the wage distribution.

Second, it is likely that an elimination of the tip credit would be gradually phased in and the tipped minimum wage would not increase to the level of the full minimum wage all at once. Research shows that modest increases to the minimum wage do not have an adverse impact on employment. One study looked at restaurant employment in every set of neighboring counties across state borders with different minimum wage policies. The study found that increases in the minimum wage led to increased earnings for workers and reduced turnover, but had no negative 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. An increase in the minimum wage will also result in increased spending by workers with greater earnings, providing a source of stimulus for the local economy.

The hospitality industry has been thriving in recent years, with employment both nationally and in New York outpacing overall job growth. 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.

There are currently seven states – with Hawaii soon to be an eighth – that do not have a separate minimum wage for tipped workers. These states have also seen growth in the restaurant industry outpace overall job growth. Minnesota in the mid-1980s gradually eliminated the tip credit system over the course of three years. They did not experience a decline in jobs in the restaurant industry.

There is strong public support for eliminating the tip credit

In New York City, we found strong public support for raising the tipped minimum wage so that it is equal to the overall minimum wage. Eighty percent of respondents in the 2014 Unheard Third survey 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.

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

New York should eliminate the tip credit

New York continues to fall behind other states in ensuring fair wages for low-wage workers. Even with the minimum wage going up to $9.00 an hour by 2016, New York still lags behind several states and cities that have successfully pushed for higher minimum wages. And as the state minimum wage goes up, the relative value of the tipped minimum wage will only decline further. For tens of thousands of New York City workers who rely on tipped income to support families, the consequences are disastrous. New York should gradually eliminate the tip credit and join the other states that do not allow a sub-minimum wage for tipped workers.