

## THE DECLINING VALUE OF THE MASSACHUSETTS TIPPED MINIMUM WAGE

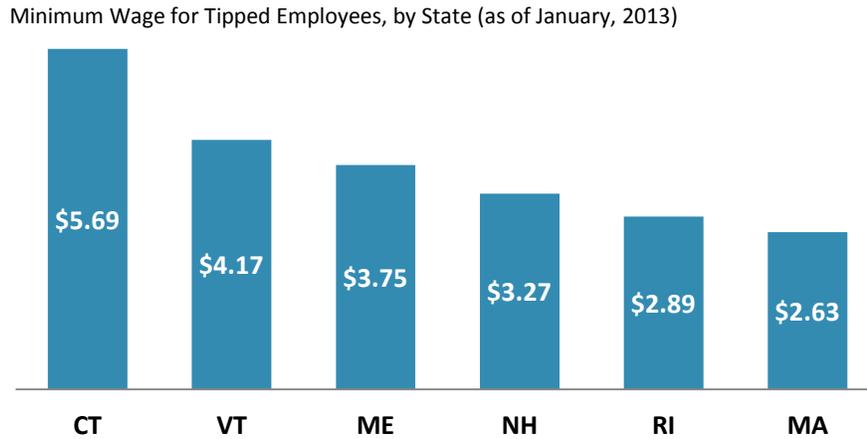
In Massachusetts employers may pay a lower minimum wage to certain workers who regularly earn tips. Originally set as a percentage of the regular minimum wage, the tipped minimum wage, as it is called, was frozen at \$2.63 per hour in 1999 and has not been increased for the last 14 years. Since 1968, the real value of the tipped minimum wage has fallen 58 percent, even further than the regular minimum wage. The decline in value particularly affects women, who constitute a disproportionate share of tipped workers.

### Background

The minimum wage for tipped workers is a subminimum wage that may be paid to workers who earn tips, such as waiters, hairdressers, and some hotel workers. Under the tipped minimum wage rules, the combination of the tipped wage and the tips received by the employee must equal at least the regular minimum wage. The difference between the tipped minimum wage and the regular minimum wage acts as a “tip credit” – the amount by which an employer can reduce workers’ wages. Tip income can vary widely, depending on a worker’s schedule, time of year, and other factors over which he or she may have little control. A robust tipped minimum wage helps provide a stable wage base for tipped workers and cushions them and their families against wide swings in tip income.

Created in 1966, the federal tipped wage was set at 50 percent of the regular minimum wage and later raised to 60 percent. As with the regular minimum wage, states may create a higher tipped wage. From 1969 to 1995 the Massachusetts tipped minimum wage was at least 60 percent of the regular minimum wage. In 1996, after the federal tipped wage was frozen at \$2.13, Massachusetts fixed its tipped wage at 50 percent of the state minimum wage for three more years, and then in 1999 it also decoupled it from the regular minimum wage, setting the rate at \$2.63 where it has remained. Today the Massachusetts tipped minimum wage is worth just one-third of the regular minimum wage, and is lower than the tipped wage in 27 other states, including all other New England states.

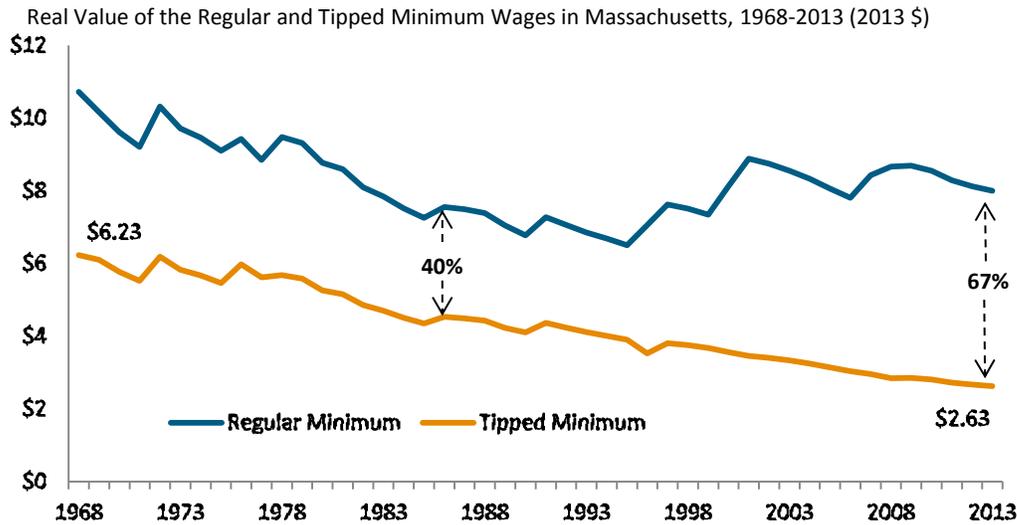
**Figure 1. Massachusetts Has the Lowest Tipped Wage in New England**



Source: U.S. Department of Labor  
 Note: The tipped wage for bartenders in CT is \$7.34.

**Declining Real Value of the Tipped Wage**

When the tipped minimum wage is set at a specific percent of the regular minimum wage, it rises whenever that wage is increased. Linking the tipped and regular minimum wages – as 15 other states do--helps ensure that the wage base for tipped workers keeps pace with wages for other workers. If the tipped minimum wage is decoupled from the regular minimum wage and not increased when the regular minimum wage rises, its relative value drops. Similarly, if either minimum wage rate is not adjusted for inflation, its real value will drop. Both these things happened in Massachusetts. From the late 1960s to the late 1990s, the real value of the regular minimum wage fell sharply, and the value of the tipped minimum wage also fell, although the gap between the two wages remained constant. After the tipped minimum wage was decoupled and frozen at \$2.63 in 1999, its real value continued to fall, and the gap between it and the regular minimum wage also widened. Today the regular minimum wage is about 25 percent lower than it was in 1968, but the value of the tipped minimum wage has fallen even further, from \$6.23 in 1968 to \$2.63 today – a drop of 58 percent.

**Figure 2. The Real Value of the Tipped Wage Has Fallen 58 Percent Since 1968**

Source: U.S. Department of Labor. Real value calculated using the Consumer Price Index for All Urban Consumers (CPI-U); 2013 values estimated based on Congressional Budget Office projections for the CPI-U.

### Impact on Tipped Minimum Wage Workers

While data limitations make it difficult to estimate numbers and types of workers on the state level, tipped workers in Massachusetts are likely to resemble those across the country and analyses of national data provide a snapshot of tipped workers.<sup>1</sup>

- The national data indicate that most workers who earn a tipped minimum wage work in service occupations, and that the majority of them work as waiters and bartenders.
- The data also show that tipped workers are disproportionately female—while women make up about 49 percent of the total workforce, they account for about 73 percent of tipped workers.
- The poverty rate among tipped workers is more than double the poverty rate for all workers. The 2007-09 poverty rate for tipped workers was 14.5 percent, and the rate for waiters was 16.7 percent, compared to 6.3 percent for all workers.
- Tipped workers are younger than the workforce as a whole; however 88 percent of tipped workers are at least 20 years old and 45 percent are 30 years or older.

When the value of the tipped wage declines, workers must rely to a greater extent on tips to make up for the lost value. However, tip income is volatile and subject to a variety of external factors—tips may vary depending in shift assignments, season of the year, and the economy; and the tip credit provision can be difficult to enforce.<sup>2</sup> A robust tipped minimum wage provides important protection for workers.

<sup>1</sup> Sylvia Allegretto and Kai Filion, "Waiting for Change: The \$2.13 Federal Subminimum Wage (Economic Policy Institute, February 23, 2012), 6-7. This analysis is based on data from the 2007-09 Current Population Survey (CPS).

<sup>2</sup> For a discussion of problems with enforcement, see Rajesh D. Nayak and Paul K. Sonn, "Restoring the Minimum Wage for America's Tipped Workers (National Employment Law Project, August, 2009), 9-10.

Eliminating the tip credit entirely, so that tipped workers earn the minimum wage — as seven states have done — provides even more protection. Indeed, analysis of national data suggests that such provisions make a real difference — the poverty rate for tipped workers in states where the minimum wage is the same for all workers is four percentage points lower than it is in states that have a tipped minimum wage equal to the federal tipped wage of \$2.13, and two and half percentage points lower than the poverty rate in states, like Massachusetts, where the tipped minimum wage lies between the federal minimum and the regular minimum wage.<sup>3</sup>

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<sup>3</sup> Ibid. This analysis estimates a poverty rate of 16.1 percent among tipped workers in states with the federal tipped minimum wage level (\$2.13), 14.6 percent in states with a tipped wage higher than the federal minimum but lower than the state minimum wage, and 12.1 in states where the tipped minimum wage is the same as the regular minimum wage.