



Nickel & Dimed In Pennsylvania

The Falling Purchasing Power of the Tipped Minimum Wage

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Executive Summary

Many people are unaware that there are two minimum wages in Pennsylvania — one for non-tipped workers that is currently \$7.25 an hour and another for tipped workers that is \$2.83 an hour. This paper profiles the recent history of the tipped minimum wage and explores the characteristics of tipped workers overall in Pennsylvania as well as those employed in food service.

Below is a brief summary of our findings:

- While the minimum wage has been increased since 1998, the tipped minimum wage has remained fixed at \$2.83 an hour. This, in combination with rising prices, means the purchasing power of the tipped minimum wage in Pennsylvania fell 29% between 1998 and 2012, and would now be more than \$4 per hour if it had kept pace with inflation. Median wages for all workers over this period have climbed by 2.8%.
- There are 158,000 tipped workers in Pennsylvania, with 117,000 of them (74%) working in food service.
- While women account for half (51%) of the overall workforce, they make up over three-quarters of the tipped workforce.
- Although tipped workers are, on average, younger than most workers, nearly nine out of every 10 tipped workers (87%) are adults (over 20 years of age) and over a quarter (27%) are 40 years of age or older.
- While just one in 17 employed women (6%) overall live in poverty, one in five female tipped food service workers lives in poverty. Among all tipped workers who are women, 18% live in poverty.
- Half of all tipped workers make less than \$10 per hour (including tips) in Pennsylvania
- Although the vast majority of tipped workers are women (78%), tipped women make 15% less than tipped men (a difference of \$1.51 an hour). Among tipped workers in food service, women make 13% less per hour than men (or \$1.18 less per hour).

¹ This report would have not been possible without the careful work of David Cooper of the Economic Policy Institute (EPI). Thanks also to Sylvia Allegretto of the University of California Berkley and Kai Filion of EPI for their work on this subject. Thanks to Amanda Wolfe of the Pennsylvania Senate for background on the state's tipped minimum wage and to Stephen Herzenberg of the Keystone Research Center for his helpful edits and additions.

In a report titled *Waiting for Change: The \$2.13 Federal Subminimum Wage*, Sylvia Allegretto of the University of California Berkley and Kai Filion of the Economic Policy Institute find that:

- Tipped workers earn more in states with a higher tipped minimum wage and the gap in earnings between tipped workers and workers overall is smaller the higher the tipped minimum wage is in a state. In other words, a good way to reduce inequality in a state is to raise the tipped minimum wage.
- The authors also find that the higher the tipped minimum wage in a state, the smaller the share of tipped workers who live in poverty. Seven states with a tipped minimum wage equal to the overall minimum wage have a poverty rate of 12.1% among tipped workers compared to Pennsylvania's 17%.
- A higher tipped minimum wage has no impact on tipped worker employment levels compared to overall employment levels.

High unemployment in Pennsylvania since the end of the Great Recession has taken a steep toll on all but the highest-income 1% of workers. In particular, low-wage women in Pennsylvania have been hit hard since 2010. Women earning \$12.73 an hour or less (the bottom 40% of women) have seen their wages fall, on average, by \$0.53 cents per hour, or 4.9%.

Pennsylvania policymakers wishing to address these troubling trends should consider raising the tipped minimum wage. Already in several of Pennsylvania's neighboring states, the tipped minimum wage stands between 50% and 80% of the current minimum wage.² Currently, in Pennsylvania the tipped minimum wage is 39% of the federal minimum wage. In the seven states with a tipped minimum wage equal to 100% of the federal minimum wage, tipped workers have higher hourly earnings and lower poverty rates than in Pennsylvania.³ In light of the evidence on the benefits and lack of negative employment effects, a conservative proposal would peg the current minimum wage for tipped workers in Pennsylvania to at least 70% of the minimum wage.

Pennsylvania's Tipped Minimum Wage

Today in Pennsylvania, employers with workers who receive, on average, at least \$30 per month in tips are allowed to pay those employees a minimum wage of \$2.83 per hour. That is more than four dollars less per hour than the current minimum wage of \$7.25 per hour. The rationale for this sub-minimum wage is that the expected income from tips for tipped employees will make up the difference between the tipped wage and the federal minimum wage.⁴

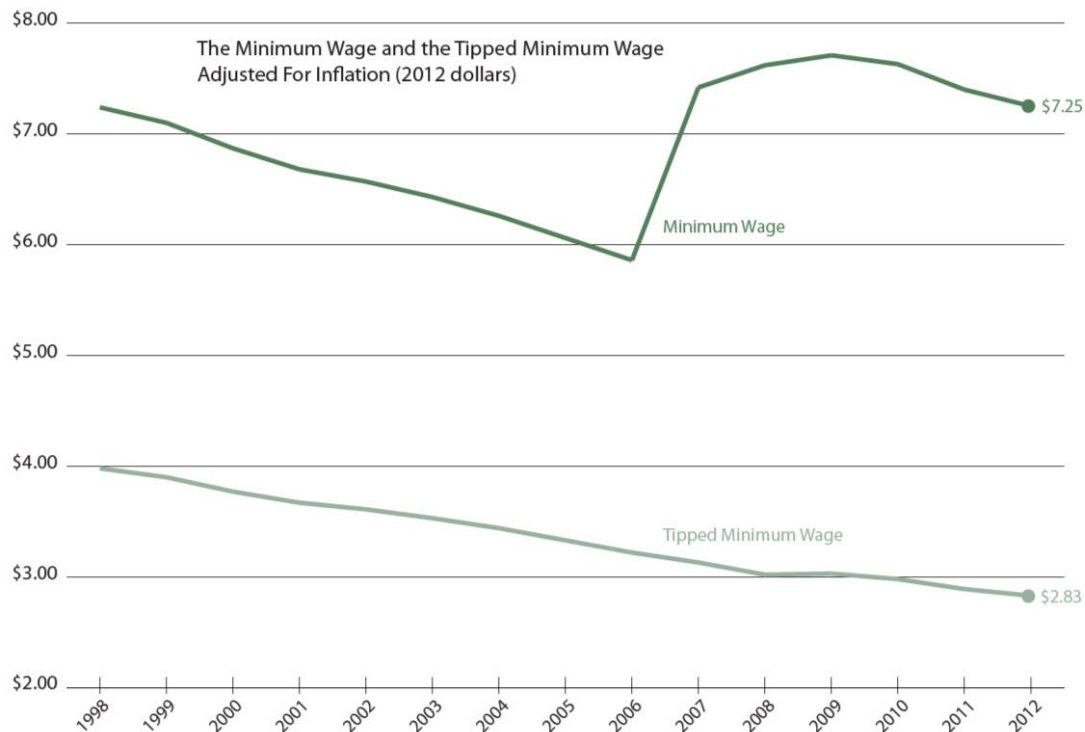
² The state tipped minimum wage as a share of the current state minimum wage is 50% in Maryland, 69% in New York, 50% in Ohio, and 80% in West Virginia. The tipped minimum wage is 31% and 29% of the minimum wage in Delaware and New Jersey, respectively. (See Table 4.)

³ Those states that do not have a tipped minimum wage include California, Nevada, Oregon, Washington, Montana, Minnesota, and Alaska.

⁴ It is beyond the scope of this paper, but it is a very real concern that workers unfamiliar with the law may not know that, if their tips do not bring their wages up to the minimum wage, their employer is required to make up the difference. For more on wage theft, see Bernhardt, Annette, et al. 2009. *Broken Laws, Unprotected Workers*.

While the minimum wage has been raised since 1998, the tipped minimum has remained fixed at \$2.83 per hour. As a result of rising prices, the purchasing power of the tipped minimum wage in Pennsylvania fell 29% between 1998 and 2012. (See Figure 1 below.) To put this decline in context, median wages in Pennsylvania adjusted for inflation have climbed by 2.8% since 1998.

Figure 1. The Purchasing Power of the Tipped Minimum Wage in Pennsylvania Has Fallen by 29% Since 1998



Source: Keystone Research Center

Who Are Tipped Workers in Pennsylvania

We use the 2010-2012 Current Population Survey to understand the demographics of tipped workers in Pennsylvania. Our definition of tipped workers includes massage therapists, bartenders, waiters and waitresses, gaming services workers, barbers, hairdressers, hairstylists and cosmetologists, and miscellaneous personal appearance workers.

We estimate that there are 158,000 tipped workers in Pennsylvania, with 117,000 of them (74%) working in food service. As Table 1 illustrates, tipped workers are more likely than the workforce as a whole to be women, young, and lack education beyond high school:

- While women represent just over half of the workforce, 78% percent of all tipped workers and 76% of tipped food service workers are women.

National Employment Law Project. New York: NELP,
http://www.unprotectedworkers.org/index.php/broken_laws/index.

- Six in 10 tipped workers are between the ages of 20 and 39 compared to four in 10 of all workers.
- African-Americans make up 9% of the overall workforce but only 6% of tipped food service workers.
- A larger share of tipped workers has no education beyond high school (56%) compared to the overall workforce (42%).
- Nearly four in 10 (37%) of all tipped workers and three in 10 tipped food service workers are married and/or single parents compared to 61% of the workforce as a whole.
- Tipped workers and tipped food service workers were more likely to work part-time (18% and 21%) compared to workers overall (8%). Over 40% of all tipped and tipped food service workers worked between 20 and 34 hour per week compared to just 14% of the overall workforce.

Table 1.

Distribution of all workers, tipped workers and food service workers in Pennsylvania by demographic groups 2010-2012

	Demographic	Total Workforce	Tipped Workers†	
			All	Food Service
Sex	Female	51%	78%	76%
	Male	49%	22%	24%
Age	Under 20	4%	13%	15%
	20-39	40%	60%	60%
	40 +	55%	27%	24%
Race/ethnicity	White	83%	81%	83%
	Black	9%	8%	6%
	Hispanic	5%	5%	6%
	Asian or other race/ethnicity	3%	6%	4%
Family status	Married parent	26%	16%	12%
	Single parent	7%	10%	10%
	Married, no kids	29%	11%	8%
	Unmarried, no kids	39%	63%	70%
Work hours	Part time (< 19hours per week)	8%	18%	21%
	Mid time (20-34 hours per week)	14%	42%	44%
	Full time (35+ hours per week)	79%	40%	35%
Education	Less than high school	7%	11%	12%
	High School	35%	45%	37%
	Some college, no degree	15%	25%	31%
	Associates degree	11%	7%	5%
	Bachelor's degree or higher	32%	12%	15%

† Tipped workers are defined here to include massage therapists, bartenders, waiters and waitresses, gaming services workers, barbers, hairdressers, hairstylists and cosmetologists, and miscellaneous personal appearance workers.

Source. Keystone Research Center based on analysis of the Current Population Survey Outgoing Rotation Group Microdata, 2010-2012 by David Cooper of the Economic Policy Institute

What Do Tipped Workers in Pennsylvania Earn

In general, tipped workers in Pennsylvania are paid much less than other workers. (See Table 2.) The hourly earnings figures presented here include tips. The typical tipped worker (at the 50th percentile or “median” of the wage distribution)

earns \$10 per hour compared to \$16.61 per hour for the typical (median) Pennsylvania earner overall. Although the vast majority of tipped workers are women (78%), a typical tipped woman makes 15% less than a man (\$1.51 less per hour). Among tipped workers in food service, women make 13% less per hour than men (\$1.18 less per hour).

Low wages for tipped workers in Pennsylvania reflect in part the state’s low tipped minimum wage of \$2.83 per hour. In an analysis of the tipped minimum wage by state, Sylvia Allegretto of the University of California Berkley and Kai Filion of the Economic Policy Institute found that the wages of tipped workers were higher in states with a higher tipped minimum wage – a median wage of about \$11.33 per hour (in 2010-12 dollars) for

Table 2.

Median wage of all workers, tipped workers and food service workers in Pennsylvania overall and by gender 2010-2012

Demographic	Total Workforce	Tipped Workers [†]	
		All	Food Service
All	\$16.61	\$10.00	\$9.48
<i>Female</i>	\$15.00	\$9.74	\$9.19
<i>Male</i>	\$18.37	\$11.25	\$10.36

[†]Tipped workers are defined here to include massage therapists, bartenders, waiters and waitresses, gaming services workers, barbers, hairdressers, hairstylists and cosmetologists, and miscellaneous personal appearance workers.

Source. Keystone Research Center based on analysis of the Current Population Survey Outgoing Rotation Group Microdata, 2010-2012 by David Cooper of the Economic Policy Institute

Table 3.

Poverty Rates of all workers, tipped workers, and food service workers in Pennsylvania

Demographic	Total Workforce [‡]	Tipped Workers [†]	
		All	Food Service
All	5%	17%	19%
<i>Female</i>	6%	18%	20%
<i>Male</i>	4%	15%	16%

[†] Tipped workers are defined here to include massage therapists, bartenders, waiters and waitresses, gaming services workers, barbers, hairdressers, hairstylists and cosmetologists, and miscellaneous personal appearance workers.

[‡] Poverty rates here are for employed workers. The overall poverty rate was 12% in 2009-2011

Source. Keystone Research Center based on analysis of the Annual Social and Economic Supplement 2009-2011, by David Cooper of the Economic Policy Institute

tipped workers compared to Pennsylvania’s \$10 per hour. Allegretto and Fillion also found that the gap in earnings between tipped workers and all workers was smaller in states with a higher tipped minimum wage.⁵

Low wages also mean the incidence of poverty is higher among tipped workers than among workers overall. While just 5% of employed workers overall live in poverty, 17% of all tipped workers live in poverty. One in five women in food service live in poverty. In the seven states with a tipped minimum wage equal to the overall minimum wage, the poverty rate among tipped workers was 12.1%.

Although Allegretto and Fillion found that wages were higher and poverty rates were lower among tipped workers in states that set the tipped minimum wage equal to the minimum wage for all workers, they also found that share of all workers represented by tipped workers in those states was the same as in states that set the tipped minimum at \$2.13 an hour (the current federal tipped minimum wage). These results suggest that a higher tipped minimum does not hurt the employment opportunities of tipped workers and is an effective policy tool for reducing both poverty and inequality.

The Tipped Minimum in Neighboring States

At \$2.83 per hour the tipped minimum wage in Pennsylvania is currently 39% of the federal minimum wage of \$7.25 per hour. Already four of Pennsylvania’s six neighboring states set the tipped minimum wage between 50% and 80% of the federal minimum wage. Maryland (\$3.63), New York (\$5), Ohio (\$3.93), and West Virginia (\$5.80) all have a tipped minimum wage that exceeds the Pennsylvania tipped minimum, and only Delaware (\$2.23) and New Jersey (\$2.13) have a lower tipped minimum wage than Pennsylvania. (See Table 4.)

Conclusion

With unemployment high, the wages of the bottom 40% of women in Pennsylvania (those earning \$12.73 per hour or less) have fallen by 4.9% (\$0.53 cents) since 2010.

Table 4
Minimum and Tipped Minimum Wages in Pennsylvania and Neighboring States

State	Minimum Wage	Tipped Minimum Wage
Pennsylvania	\$7.25	\$2.83
United States	\$7.25	\$2.13
Delaware	\$7.25	\$2.23
Maryland	\$7.25	\$3.63
New Jersey	\$7.25	\$2.13
New York	\$7.25	\$5.00
Ohio	\$7.85	\$3.93
West Virginia	\$7.25	\$5.80

Note. The tipped minimum wage in New York State is set at \$5.65 per hour for all service workers and \$5 per hour for food service workers.

Source. Keystone Research Center analysis based on data from the U.S. Department of Labor. Minimum wage (<http://www.dol.gov/whd/minwage/america.htm>). Tipped minimum wage (<http://www.dol.gov/whd/state/tipped.htm>)

⁵ Allegretto, S.A., and Fillion, K., *Waiting For Change: The \$2.13 Federal Subminimum Wage*. The Center on Wage and Employment Dynamics and the Economic Policy Institute, February 23, 2011.

Raising the tipped minimum wage in Pennsylvania would be an effective way for policymakers to improve the lives of a group of workers who are overwhelmingly women and who thus far have suffered disproportionately from the weak economic recovery. Wage, poverty, and employment data summarized by Allegretto and Fillion from the seven states that set the minimum wage for tipped workers equal to the current minimum wage suggest that such a policy boosts wages and reduces poverty among tipped workers without also lowering the employment prospects of these workers. If raising the tipped minimum wage from 39% to 70% of the overall minimum wage closed half of the tipped worker poverty gap between Pennsylvania and the states with a tipped wage equal to the overall minimum wage, this would lower the poverty rate by 2.5 percentage points (from 17% to about 14.5%) – about 4,000 people. Long term, increasing the tipped minimum wage will have positive impacts on productivity by reducing turnover among tipped workers and giving employers a stronger incentive to implement technologies that increase the efficiency of tipped workers.

In conclusion, pegging the tipped minimum wage to 70% of the minimum wage as proposed by the federal Fair Minimum Wage Act of 2013 and Pennsylvania Senate Bill 1099 (sponsored by Senator Christine Tartaglione) would be a modest – even conservative – step. Raising the tipped minimum wage is a long overdue common-sense policy idea .

The Keystone Research Center is an independent, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania and U.S. economy.