

MINIMUM WAGE

States with Equal Minimum Wages for Tipped Workers Have Smaller Wage Gaps for Women Overall and Lower Poverty Rates for Tipped Workers

November 2014 | Katherine Gallagher Robbins, Julie Vogtman and Joan Entmacher

The federal minimum cash wage for tipped workers has been frozen at \$2.13 per hour for 23 years, and now represents less than a third of the federal minimum wage (\$7.25 per hour)—its lowest share on record.¹ The inadequate tipped minimum wage is particularly detrimental to women, who represent two-thirds of tipped workers nationally.² Poverty rates for tipped workers are about twice as high as rates for workers overall,³ and women's concentration in tipped occupations and other low-wage jobs is an important factor contributing to the persistent gender wage gap: women working full time, year round are typically paid just 78 percent of what their male counterparts are paid—and the wage gap is even wider for women of color.⁴

A number of states, however, have set minimum cash wages for tipped workers above the federal level, and some states do not allow employers a "tip credit" at all (meaning employers must pay their tipped employees the regular minimum wage regardless of tips). The following analysis finds that, compared with states that have a \$2.13 hourly tipped minimum cash wage, women in these "equal treatment" states—where tipped workers must be paid the regular minimum wage before tips—fare considerably better on two key measures: the overall wage gap and poverty rates for tipped workers.

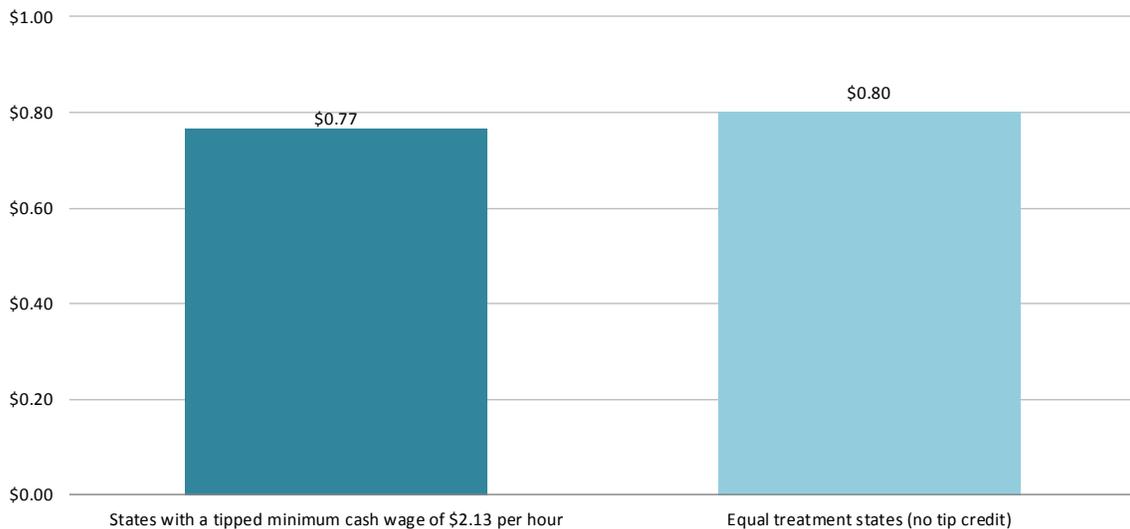
Increasing wages for the predominately female workers at the bottom of the pay scale can reduce poverty and help close the wage gap.⁵ Raising the federal minimum cash wage for tipped workers—ideally, by eliminating it altogether—is a crucial step toward fair pay for women and economic security for their families.⁶

KEY FACTS

In equal treatment states with no tip credit, compared to states with a tipped minimum cash wage of \$2.13 per hour:

- The average wage gap for women overall working full time, year round is 14 percent smaller.
- The average wage gap for African American women working full time, year round compared to white, non-Hispanic men is 9 percent smaller.
- The average wage gap for Latinas working full time, year round compared to white, non-Hispanic men is 6 percent smaller.
- The average poverty rate for female tipped workers is 33 percent lower.
- The average poverty rate for female servers and bartenders is 37 percent lower.

What women make for every dollar men make, by state tipped minimum wage level



Source: NWLC calculations based on 2013 American Community Survey Estimates (<http://www.census.gov/acs/www/>). Figures are averages of female:male state earnings ratios. State earnings ratios compare median earnings for female and male full-time, year-round workers. Equal treatment states include Hawaii.

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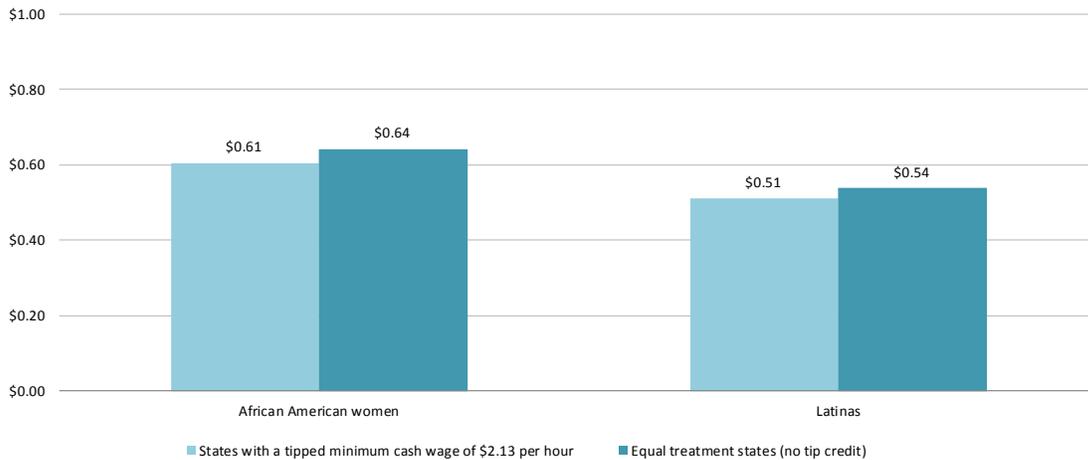
The average wage gap for women overall working full time, year round in equal treatment states is smaller than in states with a \$2.13 tipped minimum cash wage.

- Nineteen states follow the federal standard and require employers to pay their tipped workers a minimum cash wage of \$2.13 per hour.⁷ In these states, women comprise, on average, 72 percent of tipped workers—a higher concentration of women than in states where employers must pay tipped workers the regular minimum wage.⁸ Women working full time, year round are paid 77 cents for every dollar paid to their male counterparts on average in these states—leaving a wage gap of 23 cents.⁹
- The eight equal treatment states do not allow employers to take a tip credit and require them to pay their tipped workers at least the regular minimum wage.¹⁰ In these states, the average share of tipped workers who are women is 68 percent. Women working full time, year round are paid 80 cents for every dollar paid to their male counterparts on average in these states—leaving a wage gap of 20 cents, which is 14 percent smaller than the 23-cent gap in states that follow the federal standard.

Average wage gaps for women of color are also smaller in equal treatment states.

- In states that have a minimum cash wage for tipped workers of \$2.13 per hour, African American women working full time, year round are paid just 61 cents for every dollar paid to their white, non-Hispanic male counterparts on average—leaving a wage gap of 39 cents. Latinas are paid just 51 cents, leaving an average wage gap of 49 cents.¹¹
- In equal treatment states, African American women working full time, year round are paid 64 cents for every dollar paid to their white, non-Hispanic male counterparts on average—leaving a wage gap of 36 cents. Latinas are paid just 54 cents, resulting in an average wage gap of 46 cents.
- The average wage gap for African American women compared to white, non-Hispanic men in equal treatment states (36 cents) is 9 percent smaller than the average wage gap in states that have a \$2.13 per hour tipped minimum cash wage (39 cents).
- The average wage gap for Latinas compared to white, non-Hispanic men in equal treatment states (46 cents) is 6 percent smaller than the average wage gap in states that have a \$2.13 per hour tipped minimum cash wage (49 cents).¹²

What women of color make for every dollar white, non-Hispanic men make, by state tipped minimum wage level



Source: NWLC calculations based on 2011-2013 American Community Survey Three-Year Estimates (<http://www.census.gov/acs/www/>). Figures are averages of female:male state earnings ratios. State earnings ratios compare median earnings for female and male full-time, year-round workers. Earnings are in 2013 dollars. Equal treatment states include Hawaii.



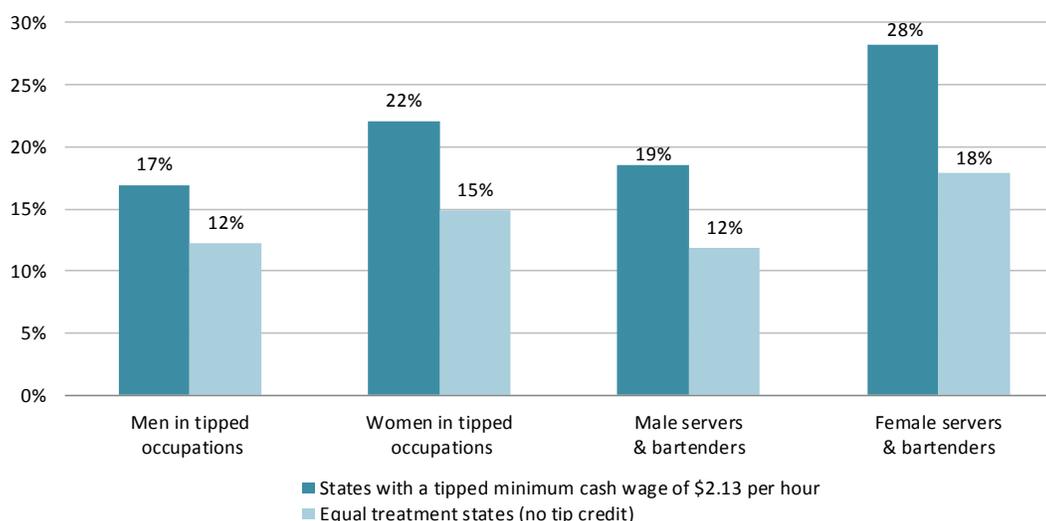
The average poverty rate for female tipped workers is lower in equal treatment states than in states with a \$2.13 tipped minimum cash wage.

- The average poverty rate for female tipped workers in equal treatment states (14.9 percent), where employers must pay their tipped employees the regular minimum wage, is 33 percent lower than in states with a \$2.13 per hour tipped minimum cash wage (22.1 percent).¹³
- Poverty rates are higher for female tipped workers than for male tipped workers in both groups of states. In equal treatment states, the average poverty rate for female tipped workers is 14.9 percent, compared to 12.2 percent for their male counterparts. In states with a \$2.13 per hour tipped minimum cash wage, the average poverty rate for female tipped workers is 22.1 percent, compared to 17.0 percent for their male counterparts.

The average poverty rate for female servers and bartenders—the largest group of tipped workers¹⁴—is lower in equal treatment states than in states with a \$2.13 tipped minimum cash wage.

- The average poverty rate for female servers and bartenders in equal treatment states (17.9 percent) is 37 percent lower than in states with a \$2.13 per hour tipped minimum cash wage (28.3 percent).¹⁵
- Poverty rates are higher for female servers and bartenders than for male servers and bartenders in both groups of states. In equal treatment states, the poverty rate for female servers and bartenders is 17.9 percent, compared to 11.9 percent for their male counterparts. In states with a \$2.13 per hour tipped minimum cash wage, the poverty rate for female servers and bartenders is 28.3 percent, compared to 18.6 percent for their male counterparts.

Poverty rates for tipped workers and servers/bartenders, by sex and state tipped minimum wage level



Source: NWLC calculations based on American Community Survey (CAS) 2008-2012 using Steven Ruggles et. al. *Integrated Public Use Microdata Series: Version 5.0* [Machine-readable database] (Minneapolis: University of Minnesota, 2010). Figures are average poverty rates for all workers. Equal treatment states include Hawaii.



1 Sylvia A. Allegretto & David Cooper, Econ. Policy Inst. & Ctr. on Wage & Employment Dynamics, Univ. of Ca., Berkeley, Twenty-Three Years and Still Waiting for Change, at 3 (July 2014), available at <http://s2.epi.org/files/2014/EPI-CWED-BP379.pdf>.

Under federal law, employers may pay tipped workers a cash wage of just \$2.13 per hour (the “tipped minimum cash wage”) and take credit for the tips that customers give the worker toward fulfilling the minimum wage requirement (the “tip credit” for employers).

2 *Id.* at 10. In their report, Allegretto and Cooper define tipped workers as all workers in a set of predominantly tipped occupations (see *id.* at 20, 23 for details). NWLC uses the same set of occupations to determine the population of tipped workers for purposes of this analysis.

3 Allegretto & Cooper, *supra* note 1, at 3.

4 NWLC, The Wage Gap Is Stagnant For Nearly A Decade (Sept. 2014), available at http://www.nwlc.org/sites/default/files/pdfs/fact_sheet_wage_gap_is_stagnant_2013.pdf.

5 Julie Vogtman & Katherine Gallagher Robbins, NWLC, Higher State Minimum Wages Promote Fair Pay for Women (Oct. 2014), available at <http://www.nwlc.org/resource/higher-state-minimum-wages-promote-fair-pay-women>, and Fair Pay for Women Requires Increasing the Minimum Wage and Tipped Minimum Wage (Oct. 2014), available at <http://www.nwlc.org/resource/fair-pay-women-requires-increasing-minimum-wage-and-tipped-minimum-wage>.

6 The Fair Minimum Wage Act (H.R. 1010/S. 460) and the Minimum Wage Fairness Act (S. 1737/S.2223) would raise the federal minimum wage from \$7.25 to \$10.10 per hour in three steps and index it to inflation. The bills would also gradually raise the tipped minimum cash wage from \$2.13 per hour to 70 percent of the federal minimum wage—an important step in the right direction for tipped workers across the country.

7 The 19 states are Alabama, Georgia, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming. Tipped minimum wage levels in this analysis are current as of September 30, 2014.

8 The share of workers in tipped occupations who are female by state is based on NWLC calculations of 2008-2012 American Community Survey (ACS) five-year averages using Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. *Integrated Public Use Microdata Series: Version 5.0* [Machine-readable database]. Minneapolis: University of Minnesota, 2010. Figures include all employed workers.

9 Overall state wage gaps are NWLC calculations based on median annual earnings for full-time, year-round male and female workers using 2013 ACS one-year estimates, Table B20017, available at <http://www.census.gov/acs/www/>.

10 The eight states are Alaska, California, Hawaii, Minnesota, Montana, Nevada, Oregon, and Washington. Hawaii is included as an “equal treatment” state with no tip credit because it has a maximum tip credit of 25 cents, which is allowed only if the total wages an employee receives from her employer plus tips equal at least 50 cents more than the regular minimum wage.

11 Wage gaps for women by racial and ethnic group are NWLC calculations based on median annual earnings for full-time, year-round male and female workers using 2011-2013 ACS three-year estimates, Tables B20017B, B20017H, and B20017I, available at <http://www.census.gov/acs/www/>.

12 This pattern is the same for white, non-Hispanic women. In states with a minimum cash wage for tipped workers of \$2.13 per hour, white, non-Hispanic women working full time, year round are paid 74 cents for every dollar paid to their white, non-Hispanic male counterparts on average—leaving a wage gap of 26 cents. In equal treatment states, white, non-Hispanic women working full time, year round are paid 78 cents for every dollar paid to their white, non-Hispanic male counterparts on average—leaving an average wage gap of 22 cents. The average wage gap for white, non-Hispanic women compared to white, non-Hispanic men in states with no tip credit (22 cents) is 15 percent smaller than the average wage gap in states with a \$2.13 minimum cash wage for tipped workers (26 cents).

13 Poverty rates for workers in tipped occupations are based on NWLC calculations of 2008-2012 ACS five-year averages, *supra* note 8. The percentage difference in poverty rates for male tipped workers between equal treatment states and states with a minimum cash wage of \$2.13 per hour is smaller than for female tipped workers but still substantial. The average poverty rate for male tipped workers is 12.2 percent in equal treatment states—28 percent lower than in states with a \$2.13 tipped minimum cash wage (17.0 percent).

14 Allegretto & Cooper, *supra* note 1, at 23.

15 The percentage difference in poverty rates for male servers and bartenders between equal treatment states and states with a minimum cash wage of \$2.13 per hour is similar to the difference for women. The average poverty rate for male servers and bartenders is 11.9 percent in equal treatment states, 36 percent lower than in states with a \$2.13 tipped minimum cash wage (18.6 percent).