



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the Senate Committee on Judiciary and Labor  
Tuesday, February 14, 2017 at 9:00 A.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 107 RELATING TO MINIMUM WAGE**

Chair Keith-Agaran, Vice Chair Rhoads, and members of the Committee:

The Chamber of Commerce of Hawaii ("Chamber") respectfully **opposes** SB 107, which increases the minimum wage to \$12.25 per hour in 2018 and \$15 per hour in 2019 and repeals language allowing the hourly wage of a tipped employee to be increased on account of tips. Also requires the department of labor and industrial relations to annually calculate the adjusted minimum wage rate to the nearest five cents using the Honolulu region CPI-W.

The Chamber is the largest business organization in Hawaii, representing more than 1,600 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber opposes this bill, which raises the minimum wage from the present \$9.25 per hour to:

- \$12.25 per hour on January 1, 2018;
- \$15.00 per hour on January 1, 2019; and

removes the tip credit completely. We also oppose the implementation of an automatic increase in the minimum wage based on the consumer price index.

This bill will **increase the minimum wage by \$4.90 per hour in just two years**. This is a huge increase for business, at a time when other costs such as healthcare and other mandates are on the rise. **Should this bill pass, it will seriously harm local businesses, the state economy, job creation and potentially the very employees it is trying to help.**

**Hawaii is Different: Prepaid Healthcare Law Mandates Employers to Pay for Insurance Premium Costs**

While the Chamber understands that other states have recently considered increases in their minimum wage, it is essential to keep in mind that **Hawaii is the only state in the nation** that requires employers to provide health insurance to its employees, including part-time employees (20 or more hours per week). No other employers in the country have this additional responsibility. In addition, workers' compensation premiums, Social Security tax, Medicare tax,

temporary disability insurance, and unemployment insurance tax are all based on wages. Increasing the minimum wage requires additional increases for all the foregoing benefits. This bill will not only increase direct labor costs to business, but will also **increase mandated benefit costs and taxes**.

The average annual health insurance premium for a single employee in Hawaii is about \$7,500. Under state law, this benefit is paid for almost entirely by the employer. If you add just the cost of health insurance to the **present minimum wage (2018)** for a full-time employee, the total benefit received by the employee is **\$13.55 per hour**, one of the highest in the country. Adding on payroll taxes, the present minimum wage benefit to the employee is about **\$14.66 per hour**. For part-time workers who receive healthcare benefits, the benefit to the employee is anywhere from **\$15.87-\$18.27 per hour**. Below is a chart showing the present minimum wage, health insurance premium costs and the proposed increases from SB 107.

**Cost for a minimum wage employee including health care premiums (\$7,500 annual premium cost 2017, 6% increase per year and then prorated by hour with 1.5% wage cap)**

<b>Present Min. Wage for 2018</b>			<b>1st Year Increase for 2018</b>			<b>2nd Year Increase for 2019</b>		
	Cost of Prepaid Healthcare	Total Hourly Benefit		Cost of Prepaid Healthcare	Total Hourly Benefit		Cost of Prepaid Healthcare	Total Hourly Benefit
Hourly	Full time		Hourly	Full time		Hourly	Full time	
\$ 10.10	\$ 3.45	\$ 13.55	\$ 12.25	\$ 3.66	\$ 15.91	\$ 15.00	\$ 3.88	\$ 18.88
Hourly	30 hours per week	Total Hourly Benefit	Hourly	30 hours per week	Total Hourly Benefit	Hourly	30 hours per week	Total Hourly Benefit
\$ 10.10	\$ 4.66	\$ 14.76	\$ 12.25	\$ 4.94	\$ 17.19	\$ 15.00	\$ 5.24	\$ 20.24
Hourly	20 hours per week	Total Hourly Benefit	Hourly	20 hours per week	Total Hourly Benefit	Hourly	20 hours per week	Total Hourly Benefit
\$ 10.10	\$ 7.06	\$ 17.16	\$ 12.25	\$ 7.48	\$ 19.73	\$ 15.00	\$ 7.93	\$ 22.93

Under the proposed minimum wage increases, in 2018, the total benefit to be provided to the employee (including payroll taxes and healthcare premiums) will be **\$17.25-\$21.08 per hour** and in 2019, it will increase to **\$20.53-\$24.58 per hour**.

Please also note that health insurance premiums increase roughly 5-9% each year. With premiums rising each year, and employers paying on average 90% of the cost of premiums, this represents an **existing 2.5% to 3% increase in compensation to the employee each year**. Lastly, the amounts listed above are for the single coverages. The family coverage premium which is a 50/50 split between employer and employee is over **\$16,000 per year**.

### Job Growth Data Unclear

According to national data, prior increases in the minimum wage have led to the loss of jobs in certain economic sectors. Below is data that reflects this concern of the business community. These are “snap shots” of some of the low-wage occupations that proponents of the increase in the minimum wage hope to help. After the 2006/2007 increase in the minimum wage, while there was 3% growth for all sectors overall, **low wage earners in the food industry lost jobs.**

Hawaii									
Occupation	2005	Med. Hrly.	2006	% Change	Med. Hrly.	2007	% Change	Med. Hrly.	
All occupations	583,630	\$14.39	599,130	3%	\$14.97	610,310	2%	\$15.54	
Food prep and serving	70,850	\$8.92	71,290	1%	\$9.14	72,070	1%	\$9.75	
Combined food prep and serving workers	10,120	\$7.24	9,710	-4%	\$7.39	9,270	-5%	\$8.26	
Counter attendants, cafeteria, food and coffee shop	6,360	\$7.32	5,630	-11%	\$8.03	5,280	-6%	\$8.63	
Dining room and cafeteria attendants and bar helpers	4,440	\$9.59	4,540	2%	\$9.30	3,880	-15%	\$10.15	
Source: www.bls.gov									

Following the 2014/2015 increase in the minimum wage, Hawaii also experienced job losses, mainly for low-income workers. At this time, data is only available for the first increase (50 cents per hour).

Hawaii							
Occupation	2014	Med. Hrly.	2015	% Change	Med. Hrly.		
All occupations	612,580	\$ 18.01	619,960	1%	\$ 18.63	3%	
Food prep and serving	77,150	\$ 11.06	78,520	2%	\$ 11.30	2%	
Combined food prep and serving workers	12,690	\$ 8.94	11,240	-11%	\$ 9.18	3%	
Counter attendants, cafeteria, food and coffee shop	3,810	\$ 10.28	4,650	22%	\$ 10.27	0%	
Dining room and cafeteria attendants and bar helpers	4,580	\$ 11.46	4,420	-3%	\$ 12.67	11%	
Source www.bls.gov							

### The Minimum Wage is a Base Floor Wage

We would also like to point out that the minimum wage is a floor wage. For many employees earning the minimum wage, it is because this is their first job and generally, are in entry-level positions. Employers must invest time and money to train these individuals. In the food and beverage industry, many employees who earn minimum wage also earn tips, which allows them to earn anywhere from \$18-30 per hour.

We also oppose the removal of the tip credit. The tip credit helps provide better compensation to non-tipped employees. Removal of the tip credit is likely to hurt food and beverage workers, who among the types of employees this bill attempts to help.

### Large Increases Would Negatively Impact Business

While only a small percentage of workers earn the minimum wage, a large increase would greatly impact many businesses as they will be forced to raise the wages of their other employees. As an example, if John started working with a company a year ago and earns \$9.50 per hour and then Lisa is hired after the new law at \$9.25 per hour, the employer will have to raise John's hourly wage to provide parity in compensation. This could increase businesses labor costs by up to 15-20% in the first year alone.

### Important Considerations

As a direct result of the significant proposed increase in the minimum wage, some businesses may have to cut back hours, reduce benefits, or limit the hiring of new employees. In Hawaii between December 2015 and November 2016, the average hours worked per week dropped from 33 to 32.1. While that may seem small, this reduction effectively lowered a person's work hours by 46.8 hours in a year. At \$9 per hour that reduced their total annual income by over \$420.

Increasing the minimum wage will also greatly affect job opportunities, especially for new, unskilled workers. In addition to traditional adult workers changing industries, young adult workers also often receive their initial work experience by starting at unskilled jobs.

When Seattle instituted a \$15 per hour minimum wage, their economy had interesting and similar results. A study conducted by the University of Washington concluded that the increase in the minimum wage reduced the number of hours worked each week, affected employment by about 1.2 percentage points and had a minimal impact on workers' average total earnings. Overall, Seattle's experiment with the minimum wage may have magnified both the positive and negative impacts, resulting in little to no net benefit. Workers who did not lose hours may have enjoyed gains in income, while those who lost hours had a hard time finding a second job to make up for their lost hours and may have earned much less. Notably, neither Seattle nor Washington State have a prepaid healthcare mandate on all businesses that **adds to the minimum wage anywhere from \$3.45-\$7.06 per hour per employee.**

If the minimum wage increases too rapidly, the market (as driven by consumers) will decide at the point of sale what they are willing to pay for. Hawaii is already ahead of the national average in hourly wages. In 2015, the national median wage was **\$17.40 per hour**, and in **Hawaii workers earned \$18.63 per hour.** The Chamber respectfully submits that the quality of life of residents in Hawaii is largely a cost issue, driven in large part by the cost of housing.

While our economy is presently on strong footing, we note that the minimum wage has never been decreased when the economy enters a recession. The Council on Revenues also recently lowered the State's forecasted revenue growth because of a projected slowdown.

For all the above reasons, we respectfully ask that this bill be held. Thank you for the opportunity to express our views and concerns.