



# QUESTION 5: THE MINIMUM WAGE FOR TIPPED WORKERS

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## **EXECUTIVE SUMMARY**

Minimum wage laws work differently for waitstaff, bartenders, manicurists, and others who rely heavily on tips. These workers are still guaranteed the full minimum wage, currently \$15 per hour in Massachusetts, but their employers can pay them as little as \$6.75 per hour, provided that tips make up the difference.

Question 5 on this year's ballot would phase out this \$6.75 "tipped minimum wage" in Massachusetts, requiring employers to directly cover the full minimum wage of their tipped workers by 2029.

Wait staff could still collect tips under Question 5, but restaurants would be allowed to pool and share those tips with cooks, bookkeepers, and other workers who don't interact directly with customers. That's not permitted under current rules but is common in states without a tipped minimum wage.

As part of our commitment to help voters understand state ballot questions, we have reviewed the text of this proposal, evaluated relevant research on tipped wages around the country, and spoken with various experts and advocates.

We found that:

- Eliminating the tipped minimum wage would likely increase earnings for waitstaff, bartenders, and other tipped workers.
- Restaurants and other tip-dependent businesses will face higher costs from having to cover the full minimum wage. They will likely compensate with a mix of price increases, new service fees, reduced hiring, and potentially lower profits.
- Allowing tips to be shared with kitchen staff could help equalize pay between front- and back-of-house workers. However, this provision has generated opposition from some servers who prefer the current system.
- The District of Columbia is phasing out its tipped wage, leading to experimentation among restaurants and a broad conversation among diners about the appropriate role and size of tips.

In the sections that follow, we discuss these and other issues in detail, including a summary of the ballot question, background on other states, and an evaluation of the potential effects of Question 5.

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## WHAT QUESTION 5 WOULD DO

Question 5 has two main provisions:

- 1) It would gradually increase the tipped minimum wage, requiring employers to cover a growing share of the full minimum wage beginning in 2025 and continuing until the full phase-out in 2029. The language of this ballot question is thoughtfully designed to ensure that the phase-out works even if the statewide minimum wage is raised above \$15 in coming years.
- 2) Restaurants that pay tipped workers the full minimum wage — which, by 2029, will be every restaurant — can pool all tips and share them among non-management staff.

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## ACTION IN OTHER STATES

The tipped minimum wage is a common feature across US states, not least because it can feel like a kind of win-win, a way to lower costs for businesses while still ensuring that tipped workers earn the full minimum wage.

Massachusetts is one of [43 states with a tipped wage](#), compared to seven that require tip-based businesses to cover the full minimum wage. (A [recent court ruling](#) has put Michigan on track to be the eighth state without a tipped minimum wage, but implementation has not yet begun.)

There are certainly things to learn from states without a tipped wage, including that restaurant culture and tipping habits live on. When you drive from Wisconsin (which has a tipped wage) to Minnesota (which does not) it's hard to spot any big differences among restaurants.

But it's been decades since any state eliminated its tipped wage, so it's harder to say exactly how the transition would go in a modern economy.

Perhaps the closest example is the District of Columbia, which is two years into a five-year

phase-out of its tipped wage. And restaurants on the Potomac do seem to be experiencing some real turbulence.

Particularly notable has been an [increase in the use of service fees](#), which can help businesses offset the rising cost of hiring.

Sometimes these fees are low and limited, perhaps a dedicated 3 to 5 percent charge to offset rising labor costs; other times they seem more like a tip replacement, at 18 to 20 percent. Reports of even heftier charges drove the city council to [cap service fees](#) at 20 percent, while a lack of transparency triggered new [guidance from the attorney general](#).

Not enough time has passed to really assess the economic impact in Washington, but early numbers [don't show any obvious problems](#) on the job front. There are somewhat fewer bartenders, an increase in waiters and waitresses, and earnings that are broadly consistent with recent years.

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## IMPACT OF A YES VOTE

Judging from existing research and conditions in other states, Question 5 will have a real, but likely limited impact on tipped workers, restaurant operations, and the economics of tip-based businesses in Massachusetts.

### FOR WORKERS

As the tipped wage is phased out, income among tipped workers is likely to rise slightly. The impact is not life-changing, in most cases, but nearly all studies find [durably higher earnings](#).

And there are a lot of tipped workers in Massachusetts who would be affected by Question 5, including a substantial number of female workers, who make up the bulk of the sector.

Massachusetts is home to some [50,000 waiters and waitresses](#), 20,000 bartenders, and 5,000 manicurists and pedicurists, among others.

## FOR BUSINESSES

On the other side of the ledger, businesses will see increased costs as they're forced to cover the full minimum wage without help from customer tips.

To compensate, restaurants and other businesses with tipped workers have a few options:

- 1) **Accept lower profits.** That's one way to absorb cost increases, but restaurants already have low profit margins — and high failure rates — so there isn't much room to trim.
- 2) **Hope for reduced worker turnover.** Higher wages can make workers [less likely to quit](#) — and thus reduce the cost of training new employees. Eliminating the tipped minimum wage might similarly boost retention rates.
- 3) **Hire fewer workers.** This is always the big concern with minimum wage increases, namely that businesses might hire fewer people (or reduce workers' hours). Decades of empirical research suggest [this does happen](#) but the impact is quite limited.
- 4) **Automate.** With kiosk ordering and online menus, restaurants could turn to technology to avoid paying for more workers.
- 5) **Raise menu prices.** When costs increase, the most straightforward long-term response is to raise prices. This can be tricky for restaurants, however — partly because of printed menus but also because some customers have strong feelings about what's fair and reasonable.
- 6) **Introduce a service fee.** The virtue of a service fee is that it allows restaurants to maintain a kind of stealth version of the tipped minimum wage. While a 20 percent tip would no longer be allowed to cover worker pay, a 20 percent service fee still could.

Given these options, it's not surprising that service fees have proved popular in Washington. But the more permanent, long-term impact likely involves a mix of all these approaches: more automation,

higher menu prices, and a tougher path to profitability for full-service restaurants.

## FOR THE STATE

Note, finally, that Question 5 may have a subtle effect on state tax collections. That's because sales tax doesn't apply to tips but it does apply to service fees and menu prices. So as restaurants shift toward these sources of revenue, the state could benefit.

## ARGUMENTS FOR A YES VOTE

Tipped workers don't earn much, even counting tips, so any policy to boost their wages will reach folks who could really use the help.

Median pay for waiters, bartenders, and workers in nail salons in Massachusetts is under \$17 per hour, meaning that half earn less than that amount. This is well below the [median wage for other workers](#) in Massachusetts, which is \$29 per hour.

The work experience might improve as well. Relying on tips sometimes leads to [unreasonable demands or outright harassment](#) from customers. If Question 5 passes, workers would have more freedom to push back.

Of course, some patrons will continue to tip, whether out of habit or a deeper commitment to the welfare of the staff. And under Question 5, these tips could be shared with cooks and other members of the restaurant team.

Kitchen staff earn relatively low wages too, roughly \$20 per hour for the typical Massachusetts cook. Question 5 could boost their earnings, whether through shared tips or shared revenue from service charges.

And while Question 5 will undoubtedly increase costs for restaurants and other businesses that rely on tipped workers, the experience of other states suggests that the change is manageable. Absent some additional shock, most affected

businesses should be able to adapt and survive via a combination of new fees, higher prices, reduced staff, and more automation.

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## ARGUMENTS FOR A NO VOTE

The fact that no state has fully eliminated the tipped minimum wage in decades — and the closest precedent is a city with one-10th our population in the second year of a five-year phase-out — means there is still a lot of uncertainty about the impact of Question 5.

Requiring restaurants to cover the full cost of the minimum wage is likely to increase prices for customers.

It could also push some restaurants out of business — or, short of that, accelerate the current shift away from full service and toward the kind of limited service associated with fast casual dining and greater potential automation.

Higher labor costs could also favor chains over local establishments, as shrinking profit margins make it harder to earn a living with just one or a few locations.

Finally, it's worth noting that tipped workers don't universally support Question 5. There is vocal opposition from some of the very workers this ballot question aims to help, piqued in large part by the provision about potentially sharing tips with non-management staff.

Many tipped workers are drawn to their jobs by the desire to hustle for outside tips. Having those tips redistributed to cooks or accountants is not something they necessarily relish.

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## OPTIONS FOR THE LEGISLATURE

Most ballot questions in Massachusetts are just like regular laws, subject to alteration or amendment

by the Legislature — without having to go back to voters. This gives lawmakers a vital role, allowing them to tweak ballot proposals in order to maximize impact and minimize risks.

If Question 5 passes, there are some changes the Legislature might consider to smooth implementation and limit risks. Voters should not assume that these adjustments will necessarily be made.

- New rules may be needed to prevent misleading or exploitative service fees. This could include a cap on fee size and clear standards for disclosing exactly how fees will be used.
- Lawmakers might also consider an accelerated phase-in schedule, to limit the uncertainty that comes with partial implementation.

By contrast, if Question 5 fails, the Legislature might:

- Bring stakeholders together to seek a compromise that improves wages for tipped workers while minimizing risks to restaurants and other businesses.

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## CONCLUSION

A yes vote on Question 5 would require restaurants and other businesses with tipped workers to cover the full minimum wage for those workers. That's a change from current law, where businesses can pay a smaller amount, provided that tips are sufficient to make up the difference.

This change would be phased in over five years. Once businesses meet the requirement to cover the full minimum wage, they could pool tips and share with cooks and other non-management staff.

A no on Question 5 would maintain the status quo, where earnings from tips count toward the minimum wage and businesses pay as little as \$6.75 per hour. Tips would also remain exclusive to customer-facing workers.

We at the Center for State Policy Analysis do not take a position on Question 5 — or any ballot initiative — but we hope this brief gives voters the information they need to make a sound decision on this important issue.



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## Contributors

In assembling this report, the Center for State Policy Analysis consulted a number of parties on both sides of Question 5. The final contents reflect our best judgment.

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