

POLICY 3:

State Minimum Wage

Why Minimum Wage Policy Matters. States seeking to improve economic opportunity for families can do so by increasing compensation for low-wage workers. Currently, the U.S. economy is losing high-wage jobs that do not require specialized training and skills. As a result, many parents can only obtain low-wage jobs,¹³ making it difficult for them to support their families. For example, the cost of housing alone is estimated to exceed the income of two parents working full time earning the federal minimum wage.¹⁴ Research indicates that moderate increases in the minimum wage have positive benefits for minimum wage earners and those just above the minimum wage, and can be enacted without significant job loss, even during economic downturns.¹⁵

Key State Policy Measures. States can improve the well-being of low-wage workers and their families by setting minimum wages above the federal minimum wage (FMW) and by including automatic adjustments as the cost of living increases or as the federal minimum wage increases.

3.1 State minimum wage (SMW) level. States seeking to promote economic stability among families can encourage and reward work by increasing the state minimum wage above the federal minimum wage.

Changes in 2007: In 2007 the federal minimum wage increased from \$5.15 per hour to 5.85 per hour. This wage is set to increase to 6.55 per hour on July 24, 2008, and again to 7.25 on July 24, 2009.

States That Consistently Exceed FMW Increases. The following states have enacted SMW increases to ensure that their SMW consistently exceeds the FMW:

| | | |
|----------------------|---------------|--------------|
| California | Massachusetts | Oregon |
| Connecticut | Michigan | Rhode Island |
| District of Columbia | Nevada | Vermont |
| Illinois | New Mexico | Washington |

States That Accelerate Adoption of FMW Increases. The following states set a SMW equal to the FMW by July 24, 2009, but prior to that date, SMW rate increases occur earlier than FMW increases:

| | | |
|----------|---------------|----------------|
| Alaska | Iowa | New Jersey |
| Arizona | Maine | New York |
| Arkansas | Maryland | North Carolina |
| Colorado | Minnesota | Ohio |
| Delaware | Missouri | Pennsylvania |
| Florida | Montana | Wisconsin |
| Hawaii | New Hampshire | |

States That Match FMW Increases. The following states set a SMW rate equal to the FMW rate at all times:

| | | |
|----------|--------------|---------------|
| Idaho | North Dakota | Virginia |
| Indiana | Oklahoma | West Virginia |
| Kansas | South Dakota | Wyoming |
| Kentucky | Texas | |
| Nebraska | Utah | |

*Georgia maintains a SMW of \$5.15

3.2 Adjustment policy. As inflation rises and the cost of living increases, minimum wages fail to keep pace with inflation. States can prevent this erosion by establishing laws that automatically increase the state minimum wage to keep pace with increases in inflation, which is measured by the Consumer Price Index (CPI). Alternatively, states can index the state minimum wage to an amount incrementally higher than the federal minimum wage (e.g., \$1 above the federal minimum wage), or to the federal minimum wage itself, ensuring that the state minimum wage is not lower than the federal minimum wage.

Changes in 2007: No Changes

State Minimum Wage Policy Measures

Measure 3.1: State Minimum Wage Level

How does the state minimum wage compare to the federal minimum wage (FMW)?

Table reflects wage increases effective July 24, 2007 through July 24, 2009.

| | |
|---|--|
| Consistently exceeds the FMW | Calif., Conn., D.C., Ill., Mass., Mich., Nev., ** N.M., Ore., R.I., Vt., Wash. |
| Adopts the maximum FMW for 2009, but more quickly | Alaska, Ariz., Ark., Colo., Del., Fla., Hawaii, Iowa, Maine, Md., Minn., Mo., Mont., N.C., N.H., N.J., N.Y., Ohio, Pa., Wis. |
| Matches increases in the FMW | Idaho, Ind., Kan., Ky., Neb., N.D., Okla., S.D., Texas, Utah, Va., W.Va., Wyo. |
| No state minimum wage* | Ala., La., Miss., S.C., Tenn. |

*In these states, the vast majority of workers are covered by the federal minimum wage.

**Nevada's state minimum wage exceeds the federal minimum wage where employers do not offer health benefits.

Measure 3.2: Adjustment Policy

What adjustment method does the state use to automatically update the state minimum wage (SMW)? *Table reflects status as of June 2007.*

| | |
|--|---|
| Index SMW to inflation and match federal minimum wage (FMW) if increased above SMW | Mo., Mont., Nev.*, Vt. |
| Index SMW to inflation | Ariz., Colo., Fla., Ohio, Ore., Wash |
| Index to some amount above the FMW | Conn., D.C., Mass. |
| Index to the FMW | Del., Iowa, Ky., Maine, Md., N.C., N.H., N.Y., Okla., Pa., Texas, Utah, Va., W.Va. |
| None | Alaska, Ark., Calif., Ga., Hawaii, Idaho, Ill., Ind., Kan., Mich., Minn., N.J., ** N.D., Neb., N.M., R.I., S.D., Wis., Wyo. |
| No state minimum wage | Ala., La., Miss., S.C., Tenn. |

* Nevada limits increases to no more than three percent per year.

** New Jersey will establish a Minimum Wage Advisory Commission to advise on future updates.

Selected State Minimum Wage Policies

| STATE | 3.1 | | | | | 3.2 |
|----------------------|-----------------------------|--------------|---------------|--------------|---------------|---|
| | STATE MINIMUM WAGE (\$/HR.) | | | | | |
| Date Effective | July 24, 2007 | Jan. 1, 2008 | July 24, 2008 | Jan. 1, 2009 | July 24, 2009 | |
| Alabama | - | - | - | - | - | N/A |
| Alaska | 7.15 | 7.15 | 7.15 | 7.15 | ↑ 7.25 | No policy |
| Arizona | 6.75 | ↑ 6.90 | 6.90 | ↑ 7.05 | ↑ 7.25 | Adjusts annually to reflect cost of living. [c] |
| Arkansas [a] | 6.25 | 6.25 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| California | 7.50 | ↑ 8.00 | 8.00 | 8.00 | 8.00 | No policy |
| Colorado [b] | 6.85 | ↑ 6.98 | 6.98 | ↑ 7.14 | ↑ 7.25 | Adjusts annually for inflation. [c] |
| Connecticut | 7.65 | 7.65 | 7.65 | 7.65 | 7.65 | Automatically set at 0.5% above FMW |
| Delaware | 6.65 | ↑ 7.15 | 7.15 | 7.15 | ↑ 7.25 | Automatically replaced by FMW if FMW is raised above SMW |
| District of Columbia | 7.00 | 7.00 | ↑ 7.55 | 7.55 | ↑ 8.25 | Automatically set at \$1 above FMW if FMW is raised above SMW |
| Florida | 6.67 | ↑ 6.80 | 6.80 | ↑ 6.95 | ↑ 7.25 | Adjusts annually for inflation using CPI-W |
| Georgia [e] | 5.15 | 5.15 | 5.15 | 5.15 | 5.15 | No policy |
| Hawaii [f] | 7.25 | 7.25 | 7.25 | 7.25 | 7.25 | No policy |
| Idaho | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Illinois [g] | 7.50 | 7.50 | ↑ 7.75 | 7.75 | ↑ 8.00 | No policy |
| Indiana [a,h] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Iowa | 6.20 | ↑ 7.25 | 7.25 | 7.25 | 7.25 | Automatically replaced by FMW if FMW is raised above SMW |
| Kansas [a] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Kentucky | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically replaced by FMW if FMW is raised above SMW |
| Louisiana | - | - | - | - | - | N/A |
| Maine | 6.75 | ↑ 7.00 | 7.00 | 7.00 | ↑ 7.25 | Automatically replaced by FMW if FMW is raised no more than \$1 above SMW |
| Maryland | 6.15 | 6.15 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| Massachusetts | 7.50 | ↑ 8.00 | 8.00 | 8.00 | 8.00 | Automatically set at \$0.10 above FMW if FMW is raised to or above SMW |
| Michigan [i] | 7.15 | 7.15 | ↑ 7.40 | 7.40 | 7.40 | No policy |
| Minnesota | 6.15 | 6.15 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Mississippi | - | - | - | - | - | N/A |
| Missouri [a,k] | 6.50 | ↑ 6.62 | 6.62 | ↑ 6.77 | ↑ 7.25 | Automatically adopts FMW if FMW is raised above SMW, and adjusts annually for inflation using CPI. [c] |
| Montana [l] | 6.15 | ↑ 6.25 | ↑ 6.55 | ↑ 6.70 | ↑ 7.25 | Automatically adopts FMW if FMW is raised above SMW, and adjusts annually for inflation. [c] |
| Nebraska | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Nevada | 6.33 | 6.33 | ↑ 7.03 | 7.03 | ↑ 7.73 | Automatically adopts FMW if FMW is raised above SMW, and adjusts annually for inflation using CPI up to 3 percent per year. [c] |
| New Hampshire | 5.85 | ↑ 6.50 | ↑ 6.55 | ↑ 7.25 | 7.25 | Automatically replaced by FMW if FMW is raised above SMW |
| New Jersey [m] | 7.15 | 7.15 | 7.15 | 7.15 | ↑ 7.25 | Advisory committee will be established to review SMW annually |
| New Mexico | 5.85 | ↑ 6.50 | 6.50 | ↑ 7.50 | 7.50 | No policy |
| New York | 7.15 | 7.15 | 7.15 | 7.15 | ↑ 7.25 | Automatically replaced by FMW if FMW is raised above SMW |
| North Carolina [a] | 6.15 | 6.15 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| North Dakota | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Ohio | 6.85 | ↑ 7.00 | 7.00 | ↑ 7.15 | ↑ 7.25 | Adjusts annually for inflation using CPI [c] |
| Oklahoma [a] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| Oregon | 7.80 | ↑ 7.95 | 7.95 | ↑ 8.15 | 8.15 | Adjusts annually for inflation using CPI-U |
| Pennsylvania [d] | 7.15 | 7.15 | 7.15 | 7.15 | ↑ 7.25 | Automatically adopts FMW |
| Rhode Island | 7.40 | 7.40 | 7.40 | 7.40 | 7.40 | No policy |
| South Carolina | - | - | - | - | - | N/A |
| South Dakota | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Tennessee | - | - | - | - | - | N/A |
| Texas [a] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| Utah [a] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| Vermont [a,n] | 7.53 | ↑ 7.67 | 7.67 | ↑ 7.85 | 7.85 | Automatically replaced by FMW if FMW is raised above SMW, and adjusts annually for inflation and cost of living. [v] |
| Virginia [o] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW |
| Washington | 7.93 | ↑ 8.08 | 8.08 | ↑ 8.27 | 8.27 | Adjusts annually for inflation using CPI-W |
| West Virginia [p] | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | Automatically adopts FMW if FMW is raised above SMW |
| Wisconsin | 6.50 | 6.50 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |
| Wyoming | 5.85 | 5.85 | ↑ 6.55 | 6.55 | ↑ 7.25 | No policy |

* FMW = Federal Minimum Wage; SMW = State Minimum Wage; CPI = Consumer Price Index

Data Source:

Liana Fox, "What a New Federal Minimum Wage Means for the States," *EPI Issue Brief #234*. Washington, DC: Economic Policy Institute, June 1, 2007.

Data Table Notes:

- a. These states include all employees covered under the Fair Labor Standards Act (FLSA).
- b. Colorado law applies to retail and service, commercial support service, food and beverage, and health and medical industries.
- c. These changes resulted from ballot initiatives in November 2006.
- d. Pennsylvania law allows employers to pay employees under 20 years of age a training wage of \$5.15 per hour for the first sixty days of employment. For employers with 10 or fewer full-time employees, Pennsylvania has enacted a modified wage increase schedule. For these employers, the SMW will increase to \$5.65 on January 1, 2007, to \$6.65 on July 1, 2007, and to \$7.15 on July 1, 2008.
- e. Georgia law applies to employers to six or more employees, and excludes employees subject to FLSA when FMW is higher than SMW.
- f. Hawaii law exempts employees earning a guaranteed monthly income of \$2,000 or more, and excludes employment subject to FLSA when SMW is higher than FMW.
- g. Illinois law applies to employers of four or more employees, excluding family members.
- h. Indiana law applies to employers of two or more employees.
- i. Michigan law applies to employers of two or more employees, and excludes employment subject to FLSA unless the SMW is higher than the FMW.
- k. Missouri law excludes employers with gross annual sales or business of less than \$500,000.
- l. Montana law excludes employment subject to FLSA unless the SMW is higher than the FMW. For businesses whose annual gross sales are \$110,000 or less, the SMW is \$4.00 per hour.
- m. To advise on future updates, New Jersey will establish a Minimum Wage Advisory Commission.
- n. Vermont law applies to employers of two or more employees.
- o. Virginia law applies to employers of four or more employees.
- p. The SMW in West Virginia is limited to employers with 6 or more employees, gross annual income greater than \$500,000, and no engagement in interstate commerce, and therefore covers very few workers relative to other state minimum wages. (Data obtained through personal correspondence with the Economic Policy Institute and the West Virginia Department of Labor, December 2006.)