



Tip Differential – Targeted Relief to a Hard Hit Sector

Separating Myth from Reality

Presented to:

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By:

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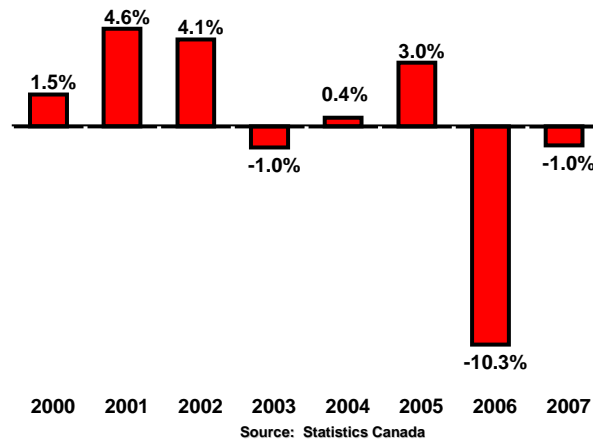
March 2008

State of the Foodservice Industry

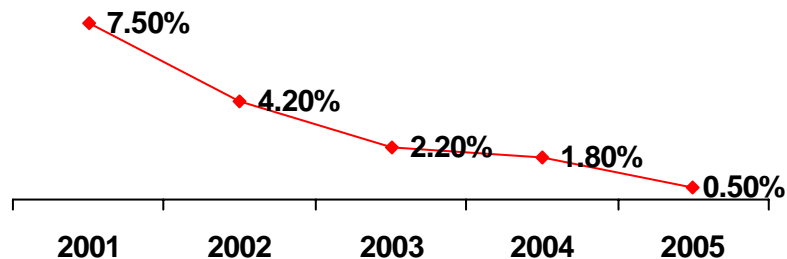
The foodservice industry, with over 13,000 employees, is one of the largest private sector employers in the province. It is one of the few industries to employ Newfoundlanders in nearly every single community, both urban and rural. Industry growth, particularly in rural Newfoundland and Labrador, lags most other jurisdictions in Canada. Continuing to add significant cost increases to employers through wage increases that are substantially higher than other economic indicators is having a dramatic impact on the viability of many operations.

- Foodservice is one of the most labour intensive industries with 31 cents of every dollar in sales going towards labour costs.
- Continuing significant cost increases in labour, energy, food and liquor combined with a downturn in tourism has had a major impact on foodservice profitability.

Real Change in Foodservice Sales Newfoundland and Labrador

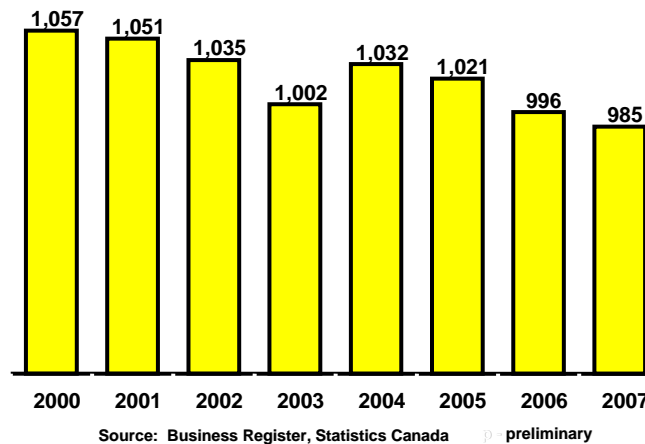


Profit Margin - NL Full Service Restaurants



- Average profit margins have decreased to just 3.8% with full service restaurants collapsing to just 0.5%. The average establishment in the province has a pre-tax profit of just \$17,722.
- Low profitability has led to the closure of many establishments and the loss of many foodservice jobs throughout the province. In general, independent (non-branded) and licensed establishments have borne the brunt of the downturn.

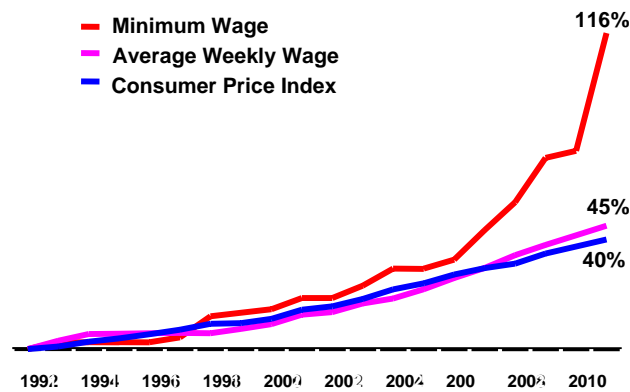
Number of Foodservice Units Newfoundland and Labrador



What is the Impact of the Proposed Minimum Wage Increase on the Foodservice Industry?

- The 50 cent increase on April 1st has a ratcheting effecting on most foodservice wages cost foodservice employers on average \$5,400.
- The announced \$2.00 increase by 2010 (to \$10.00 per hour) will cost the average establishment \$21,700 and the industry as a whole \$21.4 million. Large full service restaurants can expect increases of several hundred thousand dollars in additional labour costs.
- Foodservice sales would need to grow by 19% between 2008 and 2010 to maintain present profit margins. Sales are only forecast to grow by 7.8% during this time.
- The minimum wage is increasing faster than other economic indicators.

Minimum Wages in Newfoundland Cumulative Increase Since 1991



Source: CRFA, HRSDC, Statistics Canada and Conference Board of Canada

- The industry can't simply pass on price increases. Higher prices will mean many customers will simply decide to eat and drink at home where it is cheaper.

How will operators respond to such a large wage increase?

- Automation – Replace jobs with machines
- Back of house employees will not see wage increases they deserve, thereby increasing turnover
- Self-serve
- Pre-prepared food purchased in bulk
- Employers less willing to take a chance on a marginal employee
- Less investment returned to business
- Higher prices for customers
- Reduction in employee benefits such as medical or dental plans, tuition assistance, staff pricing, bonuses
- Less customer service
- Reduction in operating hours
- Closure

What can be done to lessen the impact on the foodservice industry?

Increases in the minimum wage have a ratcheting effect on most wages in the foodservice industry. Employees expect to maintain the spread between their wage and the minimum wage. In general, many minimum wage workers in the foodservice industry are young – Two thirds of foodservice minimum wage workers are youth and 60% only work part time. Furthermore, 25% of minimum wage workers in the industry earn tips.

Foodservice Recommendation – A Tip Differential Pilot Project

A tip or gratuity wage differential is a lower minimum wage for servers in licensed establishments. It would be put in place by maintaining the current wage rate for tipped employees at \$7.50 when the minimum wage is increased to \$8.00 in 2008. In early 2009, the issue would be reviewed and unless there are significant and compelling administrative issues, the \$7.50 wage would be maintained through the general wage increase to \$8.50 in 2009. In late 2009, the wage for tipped employees would increase to \$8.00 and then \$8.50 the \$8.75. (Assumes 4 – 50 cent increases to get the general rate from \$8.00 to \$10.00)

Organized labour and social activists have justified the proposed increase to \$10.00 as necessary to follow the lead set by Ontario. If that is the case, the Ontario example should also ring true for the tip differential. Ontario currently has a 95 cent wage differential which will be increased to a \$1.35 during the course of the current wage schedule. A tip differential is very common and has been in place in two Canadian provinces and 37 American states for years. A tip differential would target relief to the sector that has borne the brunt of the foodservice downturn.

	April 1, 2008	April 1, 2009	Oct.1, 2009	April 1, 2010	Oct.1, 2010
General Minimum Wage	\$8.00	\$8.50	\$9.00	\$9.50	\$10.00
Tip Earner Minimum Wage	\$7.50	\$7.50	\$8.00	\$8.50	\$8.75
Training Differential	\$7.50	\$8.00	\$8.50	\$9.00	\$9.50

What workers would receive a tip differential?

The proposed tip differential would duplicate the one currently in place in Ontario and be restricted to servers in licensed establishments. Ontario policy states: If an employee serves liquor as a regular part of their employment, regardless of the length of time during the shift they actually serve liquor directly to patrons, they will be considered to be entitled to the liquor servers minimum wage for all hours worked during the shift.

Included Employees

- Bartenders
- Servers who serve alcohol directly to customers in licensed establishments

Excluded Employees

- Hostesses
- Busers
- Quick service counter attendants
- Food only wait staff

- Kitchen staff
- Delivery drivers

A tip differential recognizes the significant income earned by serving staff in licensed establishments. It has benefits for employers, employees and customers.

Employers

- Moderates some of the negative impacts of future minimum wage increases.

Employees

- Protects the number of hours worked and total income for tip earners
- Allows employers to pay non-tip earners more.

Customers

- Moderates price increases

Foodservice Recommendation #2 – Training Wage differential

A training wage is currently in place in three provinces in Canada.(BC, Nova Scotia and Ontario. The models vary but the differential is essentially a lower wage for a short period of time to encourage employers to hire inexperienced, young workers. The differential would recognize the high cost of training inexperienced workers.

CRFA’s proposal would see an inexperienced worker receive a lower wage for the first 3 months of employment. This wage would be put in place by maintaining the current wage for inexperienced workers at \$7.50 when the general minimum wage is increased.

Frequently Asked Questions

***Employees can’t count on tips from customers.** Tipping is an everyday common practice. The fact is servers in licensed establishments earn a significant amount of income from tips. A Bank of Montreal survey conducted by Leger Marketing in 2006 found that 78% of restaurant customers tip 15% or more. The margin of error of the survey was plus or minus 2.5 per cent, 19 times out of 20. It is not uncommon for many service employees to earn more from tips than wages.*

***Why don’t more provinces take action to institute differentials?** Canada’s two largest provinces Ontario and Quebec both recently reaffirmed and expanded their tip differentials. In June 2007, Ontario, after careful study, increased the tip differential by 28% up to \$1.35. In 2002, the Quebec government reviewed their differential regulations and decided to expand the definition of tip earner to include foodservice delivery drivers.*

***It is difficult for government to regulate.** Ontario and Quebec report that it is not an issue. Very few if any complaints. The differential would initially be a pilot project. In early 2009 the issue would be reviewed and unless there are significant and compelling administrative issues, the differential would be maintained.*

It is not fair to roll back an employees wages? *The wage would not be rolled back. The current wage rate would be maintained for tip earners until there is a \$1.25/hour spread brought about by future increases to the general minimum wage. After that, the differential wage would increase.*

Employers will label non-tipped employees tip earners to pay them a lower wage. *Ontario and Quebec report that this is not a concern, particularly in light of the current labour shortages. Furthermore this would be just like any other Labour Code provision; employees can go to the Employment Standards Division to file complaints.*

What happens to employees who receive tips from tip pools?

Under Newfoundland legislation, tip pooling is a voluntary arrangement between employees and therefore would have no impact on an employee's minimum wage rate. Only employees who directly serve alcohol to customers are entitled to a lower minimum wage. Non-servers who receive income from a tip pool would not receive the lower wage rate.

What happens in an establishment when there are few customers? *Any business needs a base level of sales to be viable. Assuming a standard tip, a server would only have to generate \$4.00 in sales to accrue the differential amount. Furthermore, when staff are scheduled, their shift extends through a slow period into a period of higher activity.*

What happens to servers at large facilities where there are service charges or applied tips? *Some of these facilities are union and the wage would be set through the collective bargaining process. In non-union facilities, the wage would depend on whether the server is serving alcohol directly to customers during that shift. In most cases this would not be the case and the regular wage would apply.*

What happens to a server in a licensed establishment during breakfast shifts when tips are small? *Given that breakfast shifts occur prior to the hours of liquor service, employees would not be serving alcohol as a regular part of their duties during these shifts. The employee would then be entitled to the regular minimum wage.*

Is it fair to give licensed restaurant a special deal? *Servers in licensed restaurants are not like other minimum wage earners. These servers' total income is significantly higher than minimum wage. Furthermore, licensed establishments also do not utilize the inexperienced wage as do other sectors or industries because generally their staff are 19 or older and have industry experience.*

Will a differential have a negative impact on employee benefits? *The impact will be minimal, particularly since many service staff consider gratuities their main income. Other non mandatory benefits such as medical or dental plans, tuition bonuses etc will be protected because the lower labour cost will mean employers will be under less pressure to reduce costs.*

CPP Benefits *Approximately two thirds of employees earning minimum wage in the foodservice industry are under the age of 25. Most will not spend their career in the foodservice industry and depend on foodservice wages for their CPP benefit calculations. Furthermore, given the workplace reality, it is unrealistic to assume that a long term employee would receive minimum wage.*

Employment Insurance Benefits *Over 45 percent of employees in the foodservice industry are students with most students being ineligible to receive EI benefits.*

	<i>\$0.50 Differential</i>	<i>\$1.00 Differential</i>
<i>Impact on Weekly EI Benefits*</i>	\$6.30/week	\$12.60/week
<i>Impact on Weekly CPP Benefits*</i>	\$2.86/week	\$5.73/week
<i>Impact on Annual Vacation Pay*</i>	\$23.82/year	\$47.63/year

**Based on Statscan 22.9 hour work week*