

## How the Minimum Wage Increase Will Affect Your Customers

President Bush signed legislation on May 25 that increases the federal minimum wage to \$7.25 per hour in three steps over a period of 26 months. The changes will affect employers in different ways, depending on the state in which their employees work.

The federal minimum wage will increase from \$5.15 per hour to:

- \$5.85 per hour 60 days after enactment (which will be July 24, 2007),
- \$6.55 per hour one year after the first increase (which will be July 24, 2008), *and*
- \$7.25 per hour two years after the first increase (which will be July 24, 2009)

In general, employers in 17 states will effectively see the minimum wage they are required to pay increase in lockstep with the three increases outlined above. These states are:

- Alabama
- Georgia
- Idaho
- Indiana
- Kansas
- Louisiana
- Mississippi
- Nebraska (*state law is not tied to federal law, so employers covered by state, but not federal law, will not be required to pay federal minimum wage.*)
- North Dakota
- Oklahoma
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah (*the state's minimum wage does not apply to anyone entitled to the federal minimum wage.*)
- Virginia
- Wyoming (*the state's law is not tied to federal law, so employers covered by state, but not federal law, will not be required to pay federal minimum wage.*)

However, the federal changes will have a different effect in the 34 states that had already set the state minimum wage above the old federal minimum wage (\$5.15 per hour).

Like the federal government, some states decided to raise their minimum wages incrementally, which means, for at least two states, the applicable minimum wage will switch back and forth from federal and state rates (see New Hampshire and New Mexico).

Because the federal law covers nearly all employees, making most employers subject to both state and federal laws, employers may effectively ensure compliance with both sets of laws simply by following the one that is most beneficial to the employee.

The change on the federal level will generally have no effect on employers in 8 states because they currently have minimum wages at or above \$7.25 per hour. These states are:

- California
- Connecticut

- Hawaii
- Massachusetts
- Oregon (indexed to inflation)
- Rhode Island
- Vermont (indexed to inflation)
- Washington (indexed to inflation)

Four additional states (Illinois, Iowa, Kentucky, and Michigan) have minimum wages that are currently lower than \$7.25 per hour but will rise to or above that level at a faster pace than the federal minimum wage.

- In **Illinois**, the state minimum wage (currently \$6.50) will rise to \$7.50 in July 2007, \$7.75 in July 2008, \$8.00 in July 2009, and \$8.25 in 2010.
- In **Iowa**, the state minimum wage (currently \$6.20 per hour) will rise to \$7.25 per hour on January 1, 2008.
- In **Kentucky**, the state minimum wage will increase from \$5.15 per hour to \$5.85 per hour beginning July 1, 2007. Beginning July 1, 2008, the minimum wage will rise to \$6.55 per hour. The minimum wage will move to \$7.25 beginning July 1, 2009.
- In **Michigan**, the state minimum wage (currently \$6.95) will rise to \$7.15 on July 1, 2007 and to \$7.40 on July 1, 2008.

In 7 states, employers won't be affected by the federal changes until the second step (when the federal minimum wage rises to \$6.55 per hour). These states are:

- **Arkansas** (the state minimum wage is \$6.25)
- **Maryland** (the state minimum wage is \$6.15)
- **Minnesota** (the state minimum wage is \$6.15 for large employers; employers with annual sales under \$625,000 are permitted to pay \$5.25 under state law--these smaller employers that are covered by the FLSA [i.e., have \$500,000 or more in annual sales] will be affected by the federal minimum wage increase this year.)
- **Missouri** (the state minimum wage is \$6.50 and is indexed to inflation\*)
- **Montana** (the state minimum wage is \$6.15 and is indexed to inflation\*)
- **North Carolina** (the state minimum wage is \$6.15)
- **Wisconsin** (the state minimum wage is \$6.50)

Employers in 10 states generally won't be affected by the federal changes until the third step (when the federal minimum wage rises to \$7.25 per hour). These states are:

- **Alaska** (the state minimum wage is \$7.15 per hour)
- **Arizona** (state minimum wage is \$6.75 and is indexed to inflation\*)
- **Colorado** (state minimum wage is \$6.85 and is indexed to inflation\*)
- **Delaware** (state minimum wage is \$6.65 per hour--increases under state law to \$7.15 on January 1, 2008)
- **Florida** (state minimum wage is \$6.67 and is indexed to inflation\*)
- **Maine** (state minimum wage is \$6.75--rises under state law to \$7.00 on October 1, 2007.)
- **New Jersey** (the state minimum wage is \$7.15 per hour)
- **New York** (state minimum wage is \$7.15)
- **Ohio** (the state minimum wage is \$6.85 and is indexed to inflation\*)
- **Pennsylvania** (the state minimum wage is currently \$6.25 but will increase to \$7.15 on July 1, 2007)

In **New Hampshire**, employers will see the applicable minimum wage switch back and forth from the rates that were recently approved at the federal and state level. Unless the state makes some changes, New Hampshire employers will be required to pay a minimum wage of:

- \$5.85 per hour beginning July 24, 2007 (federal law)
- \$6.50 per hour beginning September 1, 2007 (state law)
- \$6.55 per hour beginning July 24, 2008 (federal law)
- \$7.25 per hour beginning September 1, 2008 (state law)

In **New Mexico**, another state that recently approved a new minimum wage, employers will effectively see the minimum wage increase in four steps as well. Employers in the state will be required to pay a minimum wage of:

- \$5.85 per hour beginning July 24, 2007 (federal law)
- \$6.50 per hour beginning January 1, 2008 (state law).
- \$6.55 per hour beginning July 24, 2008 (federal law)
- \$7.50 per hour beginning January 1, 2009 (state law)

In **Nevada**, the situation is even more complicated because the state minimum wage rate varies for employers depending on whether the employer offers its employees health benefits. If an employer provides health benefits, the state law requires a minimum wage rate of \$5.15 per hour. If an employer *does not* provide health benefits, the wage rate is \$6.15 per hour. Under an annual adjustment required by the law, these rates will increase to \$5.30 and \$6.33 respectively, on July 1, 2007. The wage rates are subject to annual adjustments by the *greater of*:

- The amount the federal minimum wage increases over \$5.15 per hour; *or*
- A cost-of-living increase of up to a maximum of 3 percent per year.

The **District of Columbia** 's minimum wage, currently \$7.00 per hour, is automatically \$1.00 per hour higher than the federal rate, so the federal change will have an impact next year.

In **West Virginia**, the state minimum wage is \$5.85 per hour, or the federal minimum wage, whichever is higher. Effective July 1, 2007, the state minimum wage rate will increase to \$6.55, and on July 1, 2008, to \$7.25. West Virginia 's minimum wage law doesn't cover a private employer if 80 percent of its employees are subject to any federal law that affects minimum wages, maximum hours, or overtime compensation (e.g., the Fair Labor Standards Act (FLSA) ). Employees are subject to the FLSA's provisions if their employer is engaged in interstate commerce or in the production of goods for interstate commerce, which includes virtually all employers. **Note:** Unless it is amended, the increase in the state's minimum wage has no practical effect, as virtually all private employees are exempt in one way or another.

\* In states with minimum wages indexed to inflation, the states' annual adjustments to the minimum wages could affect whether the applicable minimum wage is the federal rate or state rate.