

# Tips and Excluded Workers: The New Orleans Test

*Testing of data collection for gratuity income in New Orleans found tips averaging \$6.65 per hour worked for all sampled occupations and industries. In addition, testing on the incidence of owners and other workers excluded from the Bureau's compensation surveys discovered that 43 percent of establishments had at least one excluded worker. Whether accurate data can now be collected for these workers, and on tips, requires additional testing.*

BY HILERY SIMPSON

As part of the Bureau of Labor Statistics' (BLS) goal to improve the accuracy and relevancy of its data, the National Compensation Survey (NCS) team recently tested the feasibility of collecting data on: (1) employee tips and (2) certain types of workers who were previously excluded from BLS compensation surveys.<sup>1</sup> Specifically, this test was the first step in reconciling the data collected in BLS compensation surveys<sup>2</sup> with the income data used by the Bureau of Economic Affairs' (BEA) National Income Accounts.<sup>3</sup> Bringing these two sources of earnings data into closer harmony will provide economists with superior tools for analyzing developments in the economy.

A key component of BEA's measures is income received from labor. BEA defines labor income as income for work, regardless of its source, whereas the BLS compensation data are limited to income provided by the employer. One way to bring the two measures closer together would be for BLS to expand its current definition of compensation. By collecting data on tips and earnings from currently excluded

workers, the NCS would significantly move toward the BEA definition.

## Feasibility testing

BLS conducted a feasibility test in New Orleans in the summer of 1996 to gather various kinds of information on tip income and excluded workers. First, it determined the incidence, dollar amount, and accuracy of data on tips. Second, it tested for the incidence and types of workers currently being excluded from Bureau compensation surveys. All data were collected by trained BLS field economists, principally through face-to-face interviews with employees.<sup>4</sup>

Overall, 77 percent of the establishments sampled for this test provided data. (See table 1.) Those establishments not providing data included refusals (15 percent) and those out of business at the time of collection (6 percent). The remainder of the establishments did not provide data for a variety of reasons; and they each accounted for less than 1 percent of the total. Similar response rates were found in

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**Table 1. Questionnaire response rates, New Orleans NCS test, 1996**

Status of returned questionnaires	Number of questionnaires returned by status	Percent of total questionnaires returned
All questionnaires .....	359	100
Useable .....	276	77
Non-useable .....	83	23
Refusal .....	55	15
Out-of-business .....	21	6
Merged unit .....	2	(Less than 1)
Out-of-scope .....	2	(Less than 1)
No matching jobs .....	1	(Less than 1)
Duplicate schedule .....	1	(Less than 1)
Partial data collected .....	1	(Less than 1)

establishments where tipped occupations were expected.

### Tip data

Employees receiving tips were surveyed in just over 6 percent of the participating establishments in the New Orleans NCS test.<sup>5</sup> The following information on tips was collected: (1) The number of tipped workers sampled during probability selection of occupations<sup>6</sup>; (2) the dollar amount of tips collected; (3) the source of the tip data; and (4) the confidence the field economist placed in the data collected.

Regular NCS collection procedures were applied in the test of employees receiving tips. In each establishment, a designated number of occupations (4 to 20) were sampled.<sup>7</sup> Then the occupation of each sampled employee was determined and wage data were collected for all employees in that occupation. Data on tips, if applicable to the occupation, were also sought.

There are several caveats associated with the tip data presented in this article. First, actual tip amounts were collected from 11 establishments, a relatively small number from which to draw significant results. The expected high variances mean the results in table 2 may not accurately reflect actual average tips for the New Orleans MSA. Second, of the eight tipped occupations sampled, only four meet publication criteria.<sup>8</sup> Data from the remaining

tipped occupations are grouped together under the category "Occupations not meeting publication criteria." Finally, these data were collected as part of a feasibility test. Normally, data collected in a test survey have higher levels of nonsampling errors than data collected as part of a regular survey program. As such, the information presented in this article should be considered preliminary. It is presented only to provide a general indication of the incidence and characteristics of workers who receive tips and the income derived from tips. Because of the limitations noted above, the tabulations presented should not be considered as representative of such workers or payments in the New Orleans labor market.

Tipped employees were sampled in just over 6 percent of surveyed establishments. They were concentrated in three industries: Casinos, restaurants, and bars. The other industries having employees who receive tips were hotels, automobile parking, and local passenger transportation, such as limousine services. Even though beauty salons and barber shops were in the sample, no tipped employees were selected in those establishments. Other industries that have tipped employees but were not sampled include passenger railroad service and deep sea passenger service (cruise lines).

### Tip income

Sixty-one percent of the establishments with sampled tipped employees provided data on the dollar amount of tips. Forty-four percent provided actual or reported tip data while 17 percent provided estimated tip data.<sup>9</sup> However, almost 40 percent of the establishments with sampled tipped occupations did not provide tip data. They cited either excessive respondent burden or poor record keeping as reasons for not supplying this information. Even with this nonresponse, individual tip data were collected for 488 workers.

Tips averaged \$6.65 per hour worked for all sampled occupations and industries. (See table 2.) Differences in the average hourly tips were found among industries and occupations. Tips were above average in the local passenger transportation industry and casinos, while below average in eating and drinking establishments and in hotels. As expected, industries with high average tips tended to have occupations with above average tips. For example, the highest average hourly tipped occupation was limousine driver, followed by casino game dealer. Hourly tips for waitstaff ranged from \$1.38 to \$15.89 (the highest rate collected in New Orleans) and averaged \$6.10. The occupations with the lowest average hourly tips were hotel bellmen and banquet servers. These comparisons were not tested for statistical differences.

**Table 2. Occupational incidence, average hourly tip income, and industries with tipped employees, New Orleans NCS test, 1996**

Occupation	Number of employees sampled	Percent of total tipped employees sampled	Average hourly tip	Industries with selected occupation
Total .....	488	100	\$6.65	
Waitstaff .....	152	31	6.10	Eating and drinking establishments
Busser (Busboy) .....	19	4	4.86	Eating establishments
Hostess .....	15	3	5.73	Eating establishments
Bartender .....	13	3	3.70	Eating and drinking establishments
Occupations not meeting publication criteria .....	289	58	7.85	Amusement, passenger transportation, and hotels

**Table 3. Reported field economist confidence in data collected by percent, New Orleans NCS test, 1996**

Confidence in data collected	Tip data	Hours worked data
Good .....	55	82
Acceptable .....	9	9
Fair .....	9	(No responses)
Poor .....	27	9
Unacceptable .....	(No responses)	(No responses)

**Data quality**

As part of the test, field economists were asked to describe the collected tip data and the related hours worked information for the 11 establishments as either “good,” “acceptable,” “fair,” “poor,” or “unacceptable.” As expected, good quality hours data were easier to collect than good quality tip data. Field economists reported just over 80 percent of the *hours worked* data for tipped employees were “good,” the highest rating available. (See table 3.) However, just over half reported actual *tip* data as “good” and 36 percent indicated the collected data were either “fair” or “poor.” No “unacceptable” data were reported in either category.

There are two issues that must be considered when examining data on tips, regardless of sample size. The first is the accuracy of tip data collected. Survey respondents repeatedly indicated that the only figures they could provide for certain occupations were those reported by their employees. Although illegal, there is an inherent benefit in

underreporting tips, specifically, a reduced tax burden. The second issue is seasonality. New Orleans respondents indicated tipped employees often will under report tips during the high tourist/convention season and over report tips during slower periods.<sup>10</sup> This is done to smooth out seasonal income fluctuations. (Areas without high and low tourist seasons might not have this problem.)

**Excluded workers**

Currently, the Employment Cost Index excludes the following workers from wage data collection:

- Owners and partners
- Individuals who set their own wages<sup>11</sup>
- Students employed by the institution they attend
- Workers paid a token wage<sup>12</sup>

These workers are excluded for a variety of reasons. Owners and partners, other individuals who set

their own pay, and workers who are paid a token wage are excluded because their pay rates are not determined by the labor market. Owners and certain partners are additionally excluded due to the difficulty in separating income that is a return to labor from income that is a return to capital. Students employed by the institution they attend are excluded because their compensation often reflects financial aid as well as remuneration for work performed.

Regular NCS collection procedures were modified for this test. In addition to the occupations sampled for the regular survey, BLS field economists obtained incidence information on all workers who were excluded from the regular survey.

Overall, the test survey found 1,170 workers in categories that are excluded from survey wage data collection. Forty-three percent of useable establishments had at least one excluded worker. Data on the incidence and the number of individuals excluded in each category were collected. (Pay rates

were not compiled.)

Owners were excluded from 36 percent of the participating establishments and accounted for 15 percent of all excluded individuals. (See tables 4 and 5.) In contrast, student workers employed in a college or university establishment, were found in only 3 percent of establishments but accounted for over three-fourths of all excluded workers.

Owners, token wage earners, and individuals who set their own wages were concentrated primarily in independent, small private establishments employing fewer than 100 workers. Few excluded workers were found in large organizations such as large general governments or major corporations. Field economists found that token wage earners and wage setters often were family members. Volunteers and certain religious workers also were found to

have token wages, while partners and members of a Board of Directors occasionally were found to be wage setters.

Except for student workers, the number of excluded workers tended to be small in the establishments studied. For example, 1.75 owners were excluded, on average, for establishments reporting at least one owner. However, the average number of excluded owners for all useable establishments was .63 of an owner. These data are illustrated in the tables below. Table 6 shows the average number of excluded workers for establishments with excluded workers and the average number of workers for all establishments in the test.

### Conclusion

The purpose of the New Orleans test was to determine if the collec-

tion of accurate data on tips were possible and to measure the incidence of individuals excluded from previous BLS surveys. The results indicate that the collection of data on tips may be feasible; however, the data had a higher than expected nonresponse rate while data quality was not as high as regular survey standards call for. Almost 40 percent of the sampled establishments having employees who receive tips did not provide tip data. This, coupled with suspect quality for over a third of the data on tips, indicates additional testing is required, possibly in the form of a pilot survey, before tips can be included in the NCS as a regular data item. Additional testing would determine the most appropriate methods of data collection to increase the response rates while also improving data quality.

In addition, the New Orleans test

**Table 4. Number and percentage of establishments with at least one excluded worker by type, New Orleans NCS test, 1996**

Excluded worker type	Number of establishments	Percent of total establishments
Owners .....	100	36
Set own wages .....	15	5
Token wage earners .....	12	4
Student workers .....	9	3

**Table 5. Total number of individuals excluded, by type, all useable establishments, New Orleans NCS test, 1996**

Excluded worker type	Number of excluded individuals	Percentage of total excluded totals
Total .....	1,170	100
Owners .....	175	15
Set own wages .....	44	4
Token wage earners .....	35	3
Student workers .....	916	78

**Table 6. Average number of excluded workers, by type, for establishments reporting such workers and for all useable establishments, New Orleans NCS test, 1996**

Excluded worker type	Average number of excluded workers per establishment	Average number of excluded workers per schedule with excluded workers
Owners .....	.63	1.75
Set own wages .....	.16	2.93
Token wage earners .....	.13	2.92
Student workers .....	3.32	101.78

gauged the incidence of currently excluded workers. Whether accurate

wages can now be collected for owners and other previously ex-

cluded workers will also need to be tested further.

—ENDNOTES—

<sup>1</sup> The data collected for this test were in conjunction with testing for the Bureau's National Compensation Survey, formerly COMP2000. This new program will integrate three current surveys (Employment Cost Index, Employment Benefit Survey, and Occupational Compensation Survey) into a single program combining all BLS compensation data.

<sup>2</sup> Tips are currently excluded from wages in BLS's principal compensation survey, the Employment Cost Index (ECI). The primary reason for this is that tips are not a cost to the employer, and as such, are outside the definition of employer costs for employee compensation used in the ECI. In addition, tips are excluded from the survey due to past difficulties in collecting accurate data. Nevertheless, tip data are collected to calculate the employer's cost for certain benefits such as Social Security.

<sup>3</sup> The BEA's national income accounts provide a quantitative view of the production, distribution, and use of the Nation's output—one of the most widely known measures is gross domestic product (GDP). BEA also prepares estimates of the Nation's tangible wealth and input-output

tables that show how industries interact.

<sup>4</sup> Bureau field economists are full-time professionals that are trained and certified in both specific survey requirements and data collection techniques. Only in the rare instance when an establishment agreed to provide data, but refused to meet with a field economist face-to-face was a telephone interview completed.

<sup>5</sup> Not all participating establishments with tipped workers in the New Orleans test provided tip amounts.

<sup>6</sup> Probability selection of occupations is a statistical method used to randomly sample occupations in an establishment. It is done to reduce respondent burden and increase participation while maintaining a high level of quality in the published data.

<sup>7</sup> The number of occupations sampled varies by the employment size of the establishment. Four occupations are sampled in establishments with fewer than 50 employees, 8 occupations between 50 and 99 employees, 10 between 100 and 249, 12 between 250 and 999, 16 between 1,000 and 2,499, and 20 occupations in establishments with more than 2,500 employees.

<sup>8</sup> Published wage data for a specific occupation must meet the following criteria: Sampled from at least three establishments, a minimum of six weighted workers, and no single establishment can contribute more than 60 percent of those workers. The four occupations that met this criteria are listed in table 2. All average tips per hour are weighted.

<sup>9</sup> Actual tip data are from employers who pay tips directly to the employees (for example, banquet worker in a hotel). Reported tip data are from employer records (IRS, etc.) as reported by the employee.

<sup>10</sup> Tip data for this test were collected during July and August of 1996, generally considered a slower tourist/convention period in New Orleans.

<sup>11</sup> Examples of individuals who set their own pay, but are not owners or partners, may include officers in a corporation, members on a board of directors, and family members.

<sup>12</sup> A token wage is one that is significantly below the expected average for that occupation. Examples of token wage earners may include certain religious workers, volunteers, and family members.