



The Iowa Policy Project

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EXECUTIVE SUMMARY

Wage Theft in Iowa

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Every year, far too many Iowans experience “wage theft” when they are cheated out of wages they have earned. Some are not paid for all of the hours they actually worked; some are paid “off the books” at less than the legally mandated minimum wage; some earn tips they do not get to keep; some are not paid at the legally mandated rate for overtime; some leave a job or contract arrangement and never receive their final paycheck.

Annually, wage theft deprives low-wage Iowa workers of an estimated \$600 million, deprives state and local government of revenue, and puts law-abiding businesses at a competitive disadvantage. This report estimates the impact of wage theft in Iowa, assesses the current state of public policy and enforcement systems intended to prevent wage theft, and surveys effective models for confronting the problem so that communities, state agencies, and policymakers in Iowa can begin to address it.

What is Wage Theft?

Wage theft occurs whenever a worker is robbed of legally owed wages because an employer breaks the law or a contract. Common forms of wage theft include:

- **Nonpayment of wages:** An employer fails to pay workers for some or all hours of work performed, or fails to pay workers in a timely fashion.
- **Underpayment of wages:** An employer pays workers less than they were promised or less than they are legally owed under state or federal minimum wage or overtime statutes.
- **Tipped job violations:** An employer pays tipped employees less than the legally mandated minimum wage for tipped jobs, forces tips to be “shared” with managers or steals workers’ tips.
- **Deduction violations:** An employer diminishes workers’ pay by making unauthorized or illegal deductions from paychecks.
- **Misclassification of employees:** An employer falsely labels an employee as an “independent contractor” in order to avoid obligations to pay minimum wage and overtime (along with a host of other employment laws, and unemployment insurance, workers’ compensation, and income tax payments). The “independent contractor” exemption is not meant to apply to those providing services under the direction and control of others; one example of misclassification would be to call a cashier a “salaried manager” to avoid the overtime provisions of federal law.

Wage theft is a widespread problem in Iowa, particularly in construction, food service, meatpacking and food processing. Its victims include those most vulnerable to exploitation, low-wage workers and immigrants. In some industries, stealing from paychecks of low-wage workers has almost become a business model.

Wage Theft in Iowa

Our preliminary assessment of the prevalence, extent and impact of wage theft in Iowa workplaces is based on evidence from complaints filed with the U.S. Department of Labor and with Iowa Workforce

Development, from court records of wage litigation in Iowa, and from community organizations, individuals, and media accounts. Though Iowa survey data does not yet exist to supplement these sources, enough information is available to generate estimates of the scope of the problem and to identify where violations are most often occurring.

Resulting findings are stunning:

- Low-wage Iowa workers miss out on an estimated \$600 million in wages each year.
- Wage theft may be costing the state at least \$45 million annually in unpaid tax revenue plus another \$14 million in lost revenue to the state's unemployment fund.
- Iowa's enforcement of wage and hour laws lags far behind national and regional peers. Iowa employs just a single investigator to enforce the law for 1.2 million private-sector workers.
- Wage theft disproportionately affects workers in certain sectors of Iowa's economy, including restaurants, construction, small businesses and the meatpacking and food processing industry.
- Wage theft has a disproportionate impact on Iowa's growing low-wage workforce and on immigrant workers.

Research in this area is important because wage theft is dramatically underreported in the official record. Diminished resources for enforcement, lack of worker education on legal rights, limited protections against retaliation for workers who come forward with complaints, and jurisdictional gaps in state and federal law all make it unlikely that most cases will ever show up on the dockets of state or federal agencies. Knowing where wage theft is most likely to occur can help policy-makers, state and federal enforcement agencies, and community organizations focus education, legislative reforms and enforcement efforts where they are most needed.

We have every reason to conclude that the problem is getting worse. Labor markets in Iowa and beyond have been characterized in recent decades by steep losses of higher-wage jobs, and disproportionate gains in low-wage sectors where wage theft is most prevalent. Current economic conditions make it both more likely that employers will resort to such violations, and less likely that workers will be in a position to object.

Though wage theft is a growing and urgent problem in Iowa, it is also a problem for which clear and achievable solutions exist. Our report provides illustrative examples of successful community-based and legislative responses from other states, along with key recommendations tailored to Iowa.

Conclusion

Practical steps can reduce the incidence of wage theft. Iowa's wage laws need a fresh look governed by 21st century standards. IWD's wage enforcement efforts need adequate funding and staff that they do not have now. Every employer in Iowa must understand its obligations and every worker must know his or her rights. These efforts would protect legitimate law-abiding businesses from abusive practices by competitors, restore needed revenue to the state budget, and ensure that Iowa workers and their families take home the wages they have worked hard to earn.

The Iowa Policy Project

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, IPP advances effective, accountable and fair government. Learn more about IPP at <http://www.iowapolicyproject.org>.

Find the full report at: <http://www.iowapolicyproject.org/2012docs/120827-wagetheft.pdf>