Fast-Food Chains Costing Taxpayers The Most Money

News
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New York (AP)-The fast-food industry is one of the nationâs largest employers of low and minimum wage workers. According to one group, often the industry workers' pay is not enough and many turn to government programs for assistance.

According to the National Employment Law Project's (NELP) newest report, because the fast-food industry pays its workers less than a living wage, U.S. taxpayers must foot the bill in the form of the public assistance programs these workers must use to get by. McDonaldâs alone, according to the group, cost taxpayers $1.2 billion last year. Based on NELPâs estimates, 24/7 Wall St. reviewed the annual costs of providing public assistance to low wage employees working at the seven largest publicly traded fast-food companies.

âWhat this report shows,â explained NELP policy analyst Jack Temple, âis that whether or not you work in the fast-food industry or eat fast-food, the industry is costing you. The low wage business model that this industry is based on drains resources from the economy by forcing low-pay workers to rely on public assistance in order to make ends meet.â
These public assistance programs include the earned income tax credit, SNAP benefits (also known as food stamps), Medicaid, the Childrenâs Health Insurance Program, and the Temporary Assistance for Needy Families program. The largest of these is Medicaid. âAlmost 90% of workers in the fast-food industry do not get health insurance," Temple said. "In addition to being a low-wage business model, it is also a virtually no-benefit business.â

Temple added that while these companies are attempting to save money by paying their employees less, they may in fact be saving much less than they think. One such cost may come in the form of the industryâs high turnover rate. âCompanies are just churning workers, and thatâs due to low wages. When you invest in higher wages, you actually get significant savings in the form of reduced employee turnover.â

At least one group has taken issue with NELPâs argument. Employment Policies Institute research director Michael Saltsman explained that the current system of lower wages and government benefits is much more ideal than raising the minimum wage substantially. âThe earned income tax credit has lifted thousands of people out of poverty, and it has done it without the consequences of increasing the minimum wage,â Saltsman said.

Saltsman added that companies simply are not going to hire as many people if wages increase substantially. âYou can have a $15 minimum wage, or have the same number of opportunities that currently exist in the fast-food restaurant industry -- but you canât have both.â

NELP argues, on the other hand, that these companies are in fact in the position to pay their workers more without hurting their bottom line. The two largest companies, McDonaldâs and Yum! Brands, had a combined net income of $7 billion. These companies are profitable and growing, the group argues, and they owe it to the employees who help make them successful to pay them closer to a living wage.

In addition, while these companies pay many of their low-level workers a minimum wage, CEO compensation for these seven companies was a combined $52.7 million in fiscal 2012. Yum! Brands CEO David Novak alone earned $14.1 million last year.

Based on a recent report by the National Employment Law Project (NELP), "Super-Sizing Public Costs," 24/7 Wall St. determined the seven publicly-traded companies that cost the government the most money. Figures on CEO compensation, and the money the companies' spent on dividends and share buybacks for stockholders in fiscal 2012, were also provided by NELP. Income and revenue figures are from Morningstar and also for fiscal 2012. Salary figures for individual occupations are from Glassdoor.com. Changes in share prices are from Google Finance.

7. Dominoâs
> Cost to U.S. taxpayers: $126 million
> CEO Compensation: $9.1 million
> U.S. restaurant workforce: 73,920
> Revenue: $1.68 billion
> Net income: $112 million

Dominoâs has more than doubled its net income since 2008, when the company posted $54 million in earnings. Many of Domino's employees are likely enrolled in government programs. According to NELP, the company could have raised employee wages rather than spend that money expanding aggressively overseas and investing heavily in technology aimed at easing the ordering and delivery process. The stock has surged over the last five years with the share price up more than 900%. Meanwhile, the compensation of J. Patrick Doyle, Dominoâs CEO since 2010, amounted to more than $6 million in 2011 and more than $9 million in 2012.

6. Sonic
> Cost to U.S. taxpayers: $164 million
> CEO Compensation: $1.7 million
> U.S. restaurant workforce: 96,012
> Revenue: $544 million
> Net income: $36 million

Unlike the other major fast-food restaurants, Sonic operates exclusively as a drive-in restaurant, with skating carhops who serve customers in their cars. The company notes that carhops are a âbrand treasure," and because many are tipped, some do actually earn better than minimum wage. Sonic generated $36 million in profits in fiscal 2012. The company also returned about $30 million to shareholders with stock buybacks and dividends, while paying its CEO a total compensation of $1.7 million. Sonicâs CEO stated in February that a hike in the minimum wage âwould put pressure on profit margins," although he also noted the company would adapt to a change. As of the last fiscal year, the company's net profit margin was less than 7%.

5. Dunkinâ Donuts
> Cost to U.S. taxpayers: $274 million
> CEO Compensation: $1.9 million
> U.S. restaurant workforce: 160,732
> Revenue: $658 million
> Net income: $108 million

When Dunkin' Brands went public in 2011, its debt level was relatively high, according to The Wall Street Journal. In spite of the high debt load, Dunkinâ owners borrowed more money and paid themselves $500 million in dividends. Much of the companyâs workforce is paid a low wage, with crew members and cashiers earning slightly above minimum wage on average, according to Glassdoor.com. The companyâs ability to raise wages may be constrained by its debt load. Last year, Dunkinâ Brands had over five times its equity in debt and paid out more than 11% of its sales in interest expenses. Still, the donut and coffee company recently revealed plans to expand to the U.K. over the next five years.

4. Wendyâ□□s
> Cost to U.S. taxpayers: $278 million
> CEO Compensation: $5.8 million
> U.S. restaurant workforce: 162,876
> Revenue: $2.51 billion
> Net income: $7 million
Wendyâ□□s returned $39 million to shareholders in fiscal 2012 and paid CEO Emil Brolick $5.8 million in total compensation. Most of the companyâ□□s workers earn low wages, and according to NELP, they cost U.S. taxpayers more than a quarter of a billion dollars. While labor advocates have pushed the company to pay its workers more, Wendyâ□□s may not be well positioned to pay its employees a higher salary. As of last year, the company's net income was just $7 million. Over the last 12 months, that number rose only slightly, to $15 million.

3. Burger King
> Cost to U.S. taxpayers: $356 million
> CEO Compensation: $6.4 million
> U.S. restaurant workforce: 208,307
> Revenue: $1.97 billion
> Net income: $118 million

Burger King has struggled to compete with Wendyâ□□s and McDonalds in recent years. Poor pricing, a limited menu, and a â□□target market of men in their early 20s -- a demographic that has been hit hard by unemployment,â□□ contributed to the company's troubles, according to a 2012 report by The Wall Street Journal. Last year, Wendyâ□□s overtook Burger King in total sales at its restaurants. Despite the recent slide in sales, the company has been able to increase its profitability, and net income rose from $88 million in 2011 to $118 million in 2012. This is likely due in large part to Burger Kingâ□□s shift towards franchising all of its stores. Critics of the chain, including New York mayoral candidate Bill de Blasio, have argued Burger King has a responsibility to improve its workers' pay.

2. Yum! Brands (Pizza Hut, Taco Bell, and KFC)
> Cost to U.S. taxpayers: $648 million
> CEO Compensation: $14.1 million
> U.S. restaurant workforce: 379,449
> Revenue: $13.63 billion
> Net income: $1.60 billion

Yum! Brands has had enormous success in China due to rising incomes, as well as the popularity of KFC and Pizza Hut in the country. However, concerns over food safety in the wake of avian bird flu outbreaks, as well as inappropriate antibiotics use on the part of its suppliers, have recently resulted in lower sales. Still, Yum! Brands' net income has been steadily rising since 2008. Compared with CEOs of other low paying fast-food chains, David Novak received the highest compensation, at more than $14 million in 2012. There has been much criticism that the companyâ□□s workers are underpaid and assertions this costs U.S. taxpayers nearly $650 million per year. Despite this, Yum! professes a strong relationship with its employees, and claims â□□to recognize and compensate employees based on their performance.â□□

1. McDonaldâ□□s
> Cost to U.S. taxpayers: $1.2 billion
> CEO Compensation: $13.7 million
> U.S. restaurant workforce: 707,850
> Revenue: $27.57 billion

> Net income: $5.47 billion

McDonalds remains extremely profitable. The burger chain's net income was nearly $5.5 billion last year. The company also effectively returned all of its profits to shareholders, paying out a total of $5.5 billion in dividends and stock buybacks. While arguments have persisted on both sides as to whether McDonaldâs should or should not increase its workers' pay, the company itself recently demonstrated just how difficult living on less than $8 an hour can be. In July, a sample budget from the companyâs financial planning website for employees was leaked. The planners made several questionable assumptions, including that an employee could work two nearly-full time jobs and spend $20 a month on health insurance.