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GOBIERNO DE PUERTO RICO

Puerto Rico Minimum Wage Assessment 2026: Findings from the Labor Market

ABEXUS
ANALYTICS

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PART I: INTRODUCTION

A minimum wage is the lowest hourly wage that covered employers are legally mandated to pay covered workers. However, a worker's annual earnings depend on more than the hourly wage alone. They are also influenced by income and cost factors. Income factors include weekly hours worked, schedule stability, number of jobs held, weeks worked during the year, household size, tax credits, and public assistance eligibility. Factors that increase the cost of living include transportation costs, childcare expenses, and the cost of basic goods and services. For this reason, minimum wage frameworks are closely connected to broader questions of employment, household dynamics, cost of living, and welfare. Given these broad connections, understanding minimum wage policy requires examining how it affects workers, employers, and labor market outcomes.

The effects of a minimum wage increase can emerge through multiple channels. The most direct effect occurs when a worker earns less than the new legal minimum and the employer must increase that worker's wage¹. Other workers may be affected if employers adjust wages above the minimum to preserve wage differentials associated with job classifications, seniority, or skill requirements. These direct and indirect effects are more difficult

to measure, but they remain important because minimum wage policy can influence both labor market outcomes and the lower end of the wage distribution even when not every worker earns exactly the statutory minimum.

Although the minimum wage establishes a general wage floor, its application varies across worker categories depending on the legal and regulatory framework governing their employment. Puerto Rico's minimum wage framework therefore requires separate consideration of several worker categories because their compensation structures or legal coverage differ from the general case. Tipped workers are one such group. These workers may receive a portion of their compensation through customer tips rather than through wages paid directly by the employer. As a result, the relevant question is not only the direct cash wage paid by the employer, but whether the combination of direct wages and tips reaches the applicable wage floor². Under current guidance, tipped employees must receive at least the Puerto Rico minimum wage when direct wages and tips are combined; if tips are insufficient, the employer must make up the difference.

¹ Employers may also respond by adjusting compensation structures, modifying hiring decisions, investing in productivity improvements, altering prices, or changing other aspects of business operations.

² The federal tipped minimum wage has remained fixed at \$2.13 per hour since 1996. The tipped minimum wage was 50% of the General Minimum Wage. Several States have gratuity minimum wages above \$2.13. Puerto Rico has not established a separate local tipped cash wage above the federal tipped rate.



Agricultural workers also require separate consideration. Act 47-2021 excluded agricultural employees from the scheduled minimum wage increases that applied to most covered workers and instead directed the Minimum Wage Review Commission to address agricultural workers through a special mandatory decree. Agricultural employment is not treated in the same manner as most private sector employment under federal wage and hour law. While many agricultural workers are covered by the Fair Labor Standards Act (FLSA) minimum wage provisions, agricultural employees are generally exempt from federal overtime protections, and certain agricultural employers are exempt from federal minimum wage requirements. Consequently, the applicable minimum wage for agricultural workers depends on both federal coverage rules and any wage orders issued by the Commission or the Department of Labor and Human Resources.

A third category consists of workers classified under executive, administrative, professional, outside sales, or computer-related exemptions, commonly referred to as white collar exemptions. In these cases, coverage depends not only on a worker's level of compensation but also on the duties performed. Workers who satisfy the applicable salary and duties tests may be exempt from minimum wage or overtime protections. Under current U.S. Department of Labor guidance, the standard salary threshold for the executive, administrative, and professional

exemption is \$684 per week, while the special salary threshold applicable to Puerto Rico remains \$455 per week.

The current legal status of these exemptions is important because the applicable salary threshold influences how many salaried workers remain outside standard wage and hour protections. For these reasons, this report distinguishes between the general minimum wage and the treatment of tipped workers, agricultural workers, and exempt employees. The number of workers earning the general minimum wage does not necessarily capture all jobholders whose compensation is affected by minimum wage regulations. Nor does it establish whether particular groups face different compliance issues, risks, or exposure to future wage adjustments. Later sections revisit these categories where the available data enables a more detailed assessment.

Having outlined the principal worker categories affected by minimum wage policy, it is useful to establish the scale of Puerto Rico's labor market and the size of the workforce potentially affected by minimum wage regulations. Puerto Rico's labor force stood at approximately 1.232 million individuals in 2025, with total employment of approximately 1.164 million. Approximately 208,000 workers were self-employed, while payroll employment was divided between the private and public sectors.

Private sector employment stood at approximately 750,000 workers in 2025, while government employment totaled approximately 200,000 workers. The minimum wage analysis focuses primarily on the private sector wage workforce. Within that group, approximately 256,500 workers earned the prevailing minimum wage in 2025. As a result, the minimum wage workforce represents a significant segment of Puerto Rico's labor market, accounting for roughly one third of all private sector employment.



Puerto Rico's minimum wage framework and the reason for this report

Puerto Rico's current minimum wage framework was established through Act 47-2021, known as the Minimum Wage Law of Puerto Rico. The law created a local process for evaluating minimum wage policy and established the Minimum Wage Review Commission as the body responsible for assessing future adjustments. While Puerto Rico is subject to the federal minimum wage, Act 47-2021 allows the Island to maintain a distinct local minimum wage and to evaluate future changes through its own institutional process.

Act 47-2021 established a sequence of scheduled increases in the general minimum wage. The minimum wage increased to \$8.50 per hour in January 2022, to \$9.50 per hour in July 2023, and to \$10.50 per hour in July 2024. The 2024 report was prepared prior to implementation of the \$10.50 increase and provided the Commission with a range of analytical scenarios designed to estimate the potential labor market and economic effects associated with any increases from the \$9.50 baseline. This report is prepared after implementation of the \$10.50 minimum wage and uses the most recent available data to assess how Puerto Rico's labor market has evolved since then.

The Commission's task extends beyond verifying the statutory wage rate. Minimum wage decisions must be evaluated in terms of employment, wages, business conditions, cost of

living, public assistance, and the number of workers directly or indirectly exposed to the wage floor. These considerations are particularly relevant in Puerto Rico, where labor market conditions are shaped by relatively low labor force participation, population decline, demographic aging, migration, and a large concentration of employment in service industries with comparatively lower wage levels. In addition, the effects of minimum wage adjustments may not be uniform across the Island. Geographical differences in supply and demand dynamics can influence how workers and employers experience a given wage adjustment. As a result, the Commission's evaluation must consider not only outcomes across the economy, but also the potential impacts associated with variation across geographic areas and sectors.

For that reason, this report does not treat the minimum wage as an isolated variable. It examines the minimum wage within the broader conditions that influence worker participation, whether employers can absorb higher labor costs, and whether future adjustments are likely to affect different sectors and worker groups unevenly. The purpose is to provide the Commission with updated data to support its ongoing evaluation process, including current labor market conditions, observed outcomes following the 2024 increase, and microsimulation results designed to illustrate the potential implications of alternative minimum wage scenarios.

Puerto Rico in the U.S. minimum wage context

Puerto Rico's minimum wage can be examined within the broader context of federal and state minimum wage policies in the United States. While differences in economic conditions, costs, and labor market structures limit direct comparisons, Puerto Rico can still be situated relative to other U.S. jurisdictions. The federal minimum wage remains \$7.25 per hour, a level established following the Fair Minimum Wage Act of 2007, whose final scheduled increase took effect in July 2009. In the absence of subsequent federal adjustments, many states have established their own minimum wage frameworks above the federal floor.

As of 2026, thirty states and the District of Columbia (excluding Puerto Rico and other territories) have minimum wages above the federal level, while thirteen states maintain minimum wages equal to the federal rate. The remaining states either have no state minimum wage or maintain a statutory minimum below the federal standard, in which case employers covered by the Fair Labor Standards Act must pay at least the federal minimum wage. Table 1 presents minimum wage levels across U.S. states and territories. At \$10.50 per hour, Puerto Rico's minimum wage exceeds the federal minimum wage of \$7.25 and the wage floors in states that continue to rely on the federal standard.

The wage floor moved from \$8.50 in 2022, to \$9.50 in 2023, and to \$10.50 in 2024.

Table 1 – Federal Minimum Wage per State (2026)

State	Rank	Minimum Wage	State	Rank	Minimum Wage	State	Rank	Minimum Wage
Washington D.C.	1	\$17.95	Nebraska	13	\$15.00	Indiana	32	\$7.25
Washington	2	\$17.13	Vermont	19	\$14.42	Iowa	32	\$7.25
Connecticut	3	\$16.94	Florida	20	\$14.00	Kansas	32	\$7.25
California	4	\$16.90	Michigan	21	\$13.73	Kentucky	32	\$7.25
Hawaii	5	\$16.00	Alaska	22	\$13.00	Louisiana	32	\$7.25
New York	5	\$16.00	Virginia	23	\$12.77	Mississippi	32	\$7.25
Rhode Island	5	\$16.00	Nevada	24	\$12.00	New Hampshire	32	\$7.25
New Jersey	8	\$15.92	New Mexico	24	\$12.00	North Carolina	32	\$7.25
Colorado	9	\$15.16	South Dakota	26	\$11.85	North Dakota	32	\$7.25
Arizona	10	\$15.15	Minnesota	27	\$11.41	Oklahoma	32	\$7.25
Maine	11	\$15.10	Arkansas	28	\$11.00	Pennsylvania	32	\$7.25
Oregon	12	\$15.05	Ohio	28	\$11.00	South Carolina	32	\$7.25
Delaware	13	\$15.00	Montana	30	\$10.85	Tennessee	32	\$7.25
Illinois	13	\$15.00	West Virginia	31	\$8.75	Texas	32	\$7.25
Maryland	13	\$15.00	Alabama	32	\$7.25	Utah	32	\$7.25
Massachusetts	13	\$15.00	Georgia	32	\$7.25	Wisconsin	32	\$7.25
Missouri	13	\$15.00	Idaho	32	\$7.25	Wyoming	32	\$7.25

Source: Economic Policy Institute, Minimum Wage Tracker (as of June 15th 2026)

Among the states that have established minimum wages above the federal level, wage floors range from \$8.75 per hour in West Virginia to \$17.13 per hour in Washington. The District of Columbia, which is commonly included in interstate comparisons, has a minimum wage of \$17.95 per hour. If Puerto Rico is placed within the ranking of the fifty states and the District of Columbia, its \$10.50 minimum wage would be 31st between Montana and West Virginia.

The state comparison can also be organized by policy framework. One group of states remains tied to the federal floor. A second group has adopted automatic or inflation-indexed adjustments. A third group has adopted fixed statutory rates or scheduled increases without automatic indexation. The adjustment mechanism determines whether the wage floor changes automatically over time or depends on future legislative or administrative action.

Table 2 – Minimum Wage Policy Landscape

Inflation-Indexed Rates			Fixed / Phasing Rates			Federal Floor States		
States	Rank	Minimum Wage	States	Rank	Minimum Wage	States	Rank	Minimum Wage
Washington D.C.	1	\$17.95	Hawaii	5	\$16.00	Alabama	32	\$7.25
Washington	2	\$17.13	Rhode Island	5	\$16.00	Georgia	32	\$7.25
Connecticut	3	\$16.94	Delaware	13	\$15.00	Idaho	32	\$7.25
California	4	\$16.90	Illinois	13	\$15.00	Indiana	32	\$7.25
New York	5	\$16.00	Maryland	13	\$15.00	Iowa	32	\$7.25
New Jersey	8	\$15.92	Massachusetts	13	\$15.00	Kansas	32	\$7.25
Colorado	9	\$15.16	Missouri	13	\$15.00	Kentucky	32	\$7.25
Arizona	10	\$15.15	New Mexico	24	\$12.00	Louisiana	32	\$7.25
Maine	11	\$15.10	Arkansas	28	\$11.00	Mississippi	32	\$7.25
Oregon	12	\$15.05	West Virginia	31	\$8.75	New Hampshire	32	\$7.25
Nebraska	13	\$15.00				North Carolina	32	\$7.25
Vermont	19	\$14.42				North Dakota	32	\$7.25
Florida	20	\$14.00				Oklahoma	32	\$7.25
Michigan	21	\$13.73				Pennsylvania	32	\$7.25
Alaska	22	\$13.00				South Carolina	32	\$7.25
Virginia	23	\$12.77				Tennessee	32	\$7.25
Nevada	24	\$12.00				Texas	32	\$7.25
South Dakota	26	\$11.85				Utah	32	\$7.25
Minnesota	27	\$11.41				Wisconsin	32	\$7.25
Ohio	28	\$11.00				Wyoming	32	\$7.25
Montana	30	\$10.85						

Source: Economic Policy Institute, Minimum Wage Tracker (as of June 15th 2026)

The inflation-indexed group includes 21 jurisdictions and ranges from Montana at \$10.85 per hour to the District of Columbia at \$17.95 per hour. The fixed and phasing group includes ten states and ranges from West Virginia at \$8.75 per hour to Hawaii and Rhode Island at \$16.00 per hour. Puerto Rico's framework under Act 47-2021 is closest to the fixed or phasing model. The law established scheduled increases to \$8.50, \$9.50, and \$10.50,

while assigning future evaluation to the Minimum Wage Review Commission. Puerto Rico has therefore moved away from exclusive reliance on the federal wage floor, but its current wage remains near the lower end of jurisdictions that have adopted their own higher minimum wages.

Figure 1 – Minimum Wage Policy Landscape (2026)

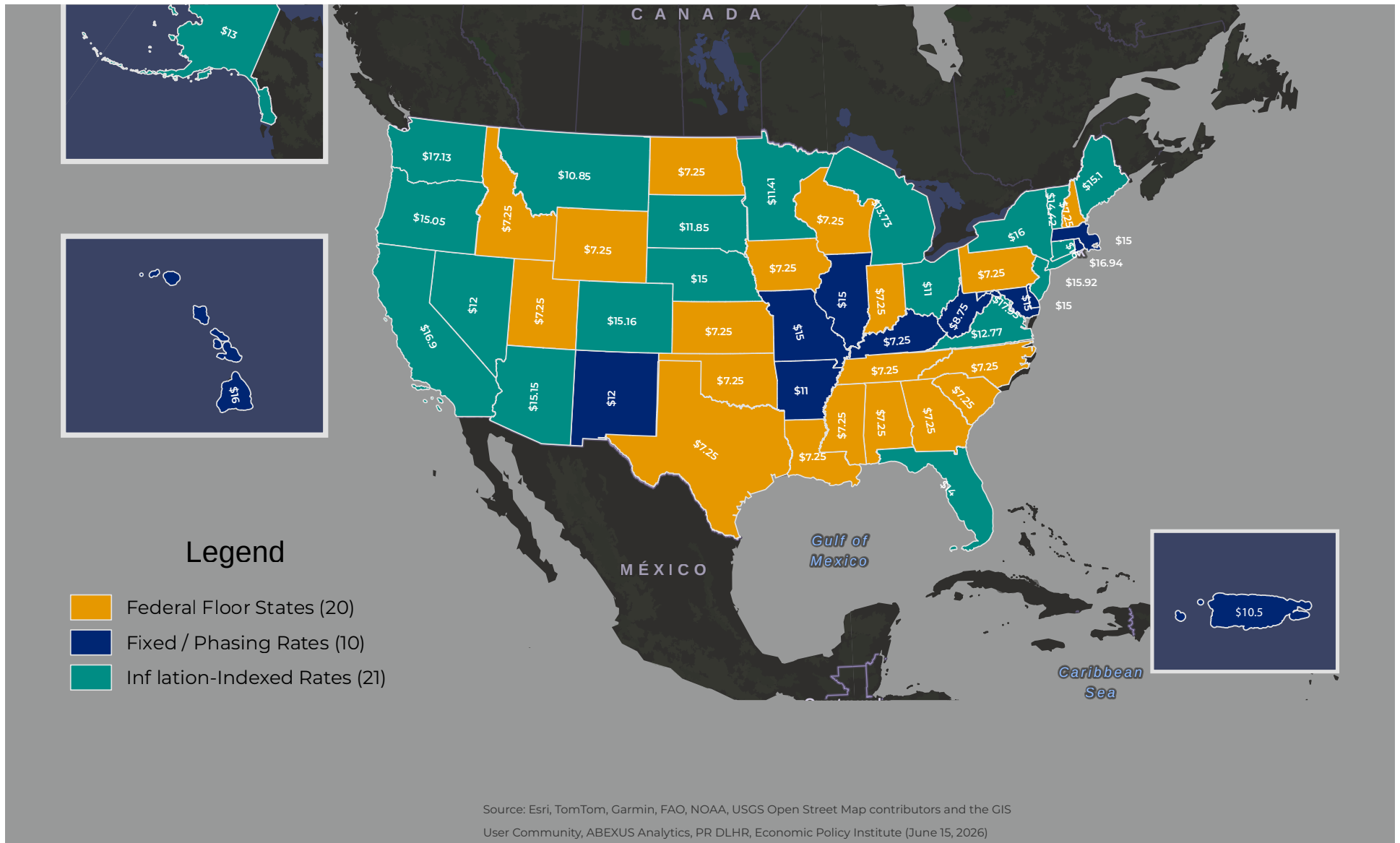


Table 3 – Tipped Wage Policy Landscape (2026)

Parity Model		Hybrid Model		Decoupled Model (\$2.13)	
States	Tipped Wage	States	Tipped Wage	States	Tipped Wage
Washington	\$17.13	Hawaii	\$14.75	Alabama	\$2.13
California	\$16.90	Arizona	\$12.15	Georgia	\$2.13
Oregon	\$15.05	Colorado	\$12.14	Indiana	\$2.13
Alaska	\$13.00	Florida	\$10.98	Kansas	\$2.13
Nevada	\$12.00	New York	\$10.65	Kentucky	\$2.13
Minnesota	\$11.41	Washington D.C.	\$10.00	Louisiana	\$2.13
Montana	\$10.85	Illinois	\$9.00	Mississippi	\$2.13
		Maine	\$7.55	Nebraska	\$2.13
		Missouri	\$7.50	North Carolina	\$2.13
		Vermont	\$7.21	Oklahoma	\$2.13
		Massachusetts	\$6.75	South Carolina	\$2.13
		Connecticut	\$6.38	Tennessee	\$2.13
		New Jersey	\$6.05	Texas	\$2.13
		South Dakota	\$5.93	Utah	\$2.13
		Ohio	\$5.50	Virginia	\$2.13
		Michigan	\$5.49	Wyoming	\$2.13
		North Dakota	\$4.86		
		Iowa	\$4.35		
		Rhode Island	\$3.89		
		Maryland	\$3.63		
		Idaho	\$3.35		
		New Hampshire	\$3.26		
		New Mexico	\$3.00		
		Pennsylvania	\$2.83		
		Arkansas	\$2.63		
		West Virginia	\$2.63		
		Wisconsin	\$2.33		
		Delaware	\$2.23		

States with indexation adjust the minimum wage automatically according to a defined formula, usually tied to inflation. States with fixed or phasing schedules require a new policy decision once the scheduled increases have been completed. Puerto Rico currently falls in the latter category. Its \$10.50 minimum wage represents a local statutory wage floor above the federal minimum, but future adjustments depend on the Commission’s evaluation process and subsequent policy action.

Tipped workers require separate treatment. At the federal level, the tipped cash wage has remained fixed at \$2.13 per hour since 1996. Under the tipped wage framework, employers may count a portion of customer tips toward the applicable minimum wage, provided that direct wages plus tips reach the required wage floor. If tips are insufficient, the employer must pay the difference. This creates a second wage floor for tipped employees: the direct cash wage paid by the employer before tips are counted. Prior to 1996, the tipped minimum wage was pegged at 50% of the general minimum wage at the Federal level.

Across the states, tipped wage policy can be grouped into three broad models. The first is a parity model, where the tip credit is eliminated and tipped workers must receive the full minimum wage directly from the employer before tips. Under the hybrid model, the tipped cash wage is above the federal tipped minimum of \$2.13 per hour but remains below the applicable general minimum wage in that jurisdiction. The third is a decoupled model, where the tipped cash wage remains fixed at \$2.13 even as the general minimum wage rises.

Puerto Rico falls within the decoupled model. Puerto Rico has increased its general minimum wage to \$10.50, but it has not established a local tipped cash wage above the federal tipped rate. As a result, the tipped cash wage remains \$2.13 per hour. This means that the tipped cash wage equals 20.3 percent of Puerto Rico's general minimum wage.

The percentage comparison shows the relative distance between the tipped cash wage and the general minimum wage. In Puerto Rico, the tipped wage represents roughly one-fifth of the general minimum wage. This places Puerto Rico below the ratio observed in states operating at the federal wage floor, where the \$2.13 tipped wage represents 29.4 percent of the \$7.25 federal minimum wage, and below hybrid jurisdictions that have raised the tipped cash wage above the federal tipped rate.

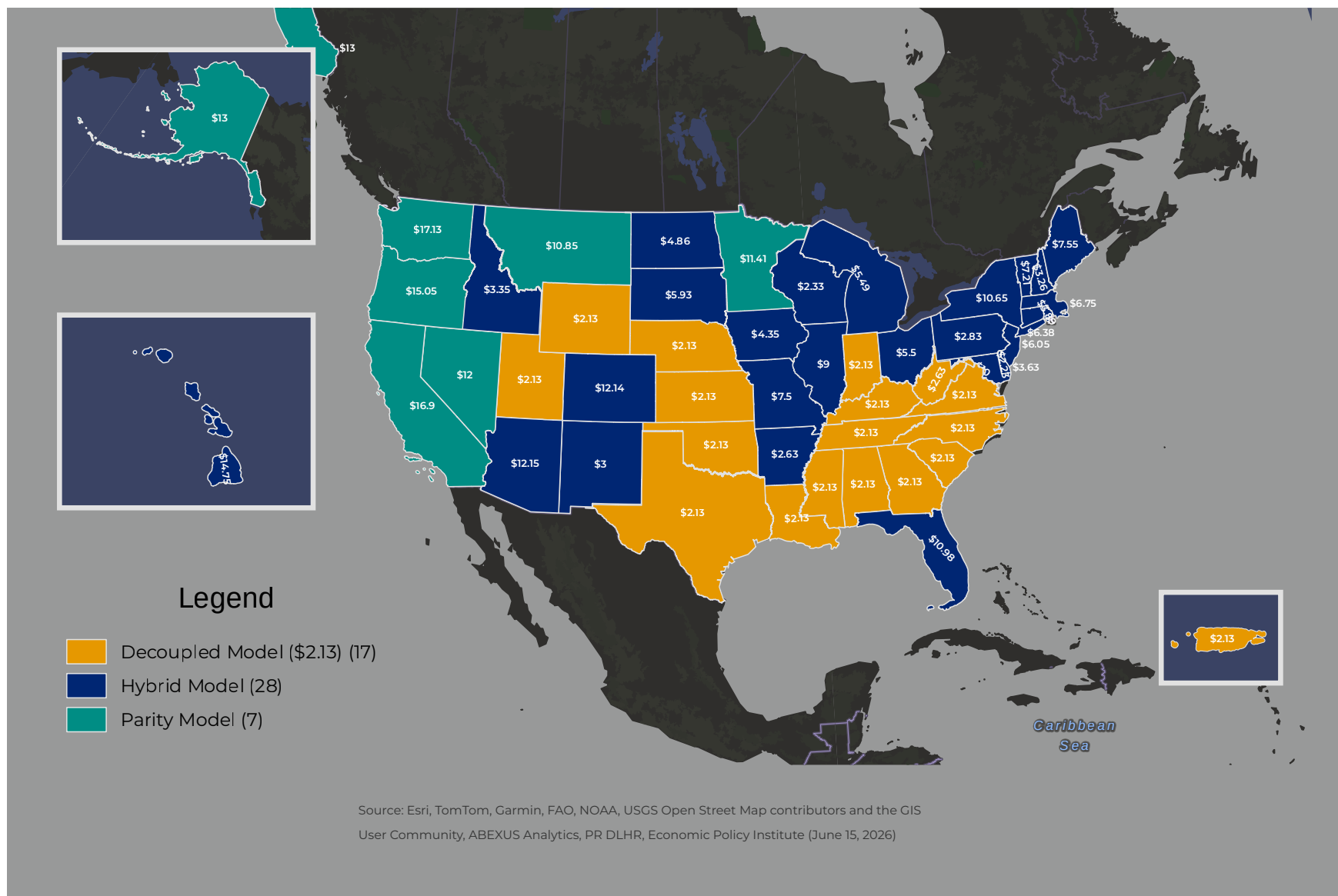
Table 4 – Tipped Wage as Percentage of Minimum Wage per Policy Group (2026)

Hybrid Model			Decoupled Model (\$2.13)		
States	Tipped Credit Gap	Tipped Wage	States	Tipped Credit Gap	Tipped Wage
Hawaii	92%	\$14.75	Alabama	29%	\$2.13
Arizona	80%	\$12.15	Georgia	29%	\$2.13
Colorado	80%	\$12.14	Indiana	29%	\$2.13
Florida	78%	\$10.98	Kansas	29%	\$2.13
North Dakota	67%	\$4.86	Kentucky	29%	\$2.13
New York	67%	\$10.65	Louisiana	29%	\$2.13
Illinois	60%	\$9.00	Mississippi	29%	\$2.13
Iowa	60%	\$4.35	North Carolina	29%	\$2.13
Washington D.C.	56%	\$10.00	Oklahoma	29%	\$2.13
South Dakota	50%	\$5.93	South Carolina	29%	\$2.13
Maine	50%	\$7.55	Tennessee	29%	\$2.13
Missouri	50%	\$7.50	Texas	29%	\$2.13
Ohio	50%	\$5.50	Utah	29%	\$2.13
Vermont	50%	\$7.21	Wyoming	29%	\$2.13
Idaho	46%	\$3.35	Virginia	17%	\$2.13
Massachusetts	45%	\$6.75	Nebraska	14%	\$2.13
New Hampshire	45%	\$3.26			
Michigan	40%	\$5.49			
Pennsylvania	39%	\$2.83			
New Jersey	38%	\$6.05			
Connecticut	38%	\$6.38			
Wisconsin	32%	\$2.33			
West Virginia	30%	\$2.63			
New Mexico	25%	\$3.00			
Rhode Island	24%	\$3.89			
Maryland	24%	\$3.63			
Arkansas	24%	\$2.63			
Delaware	15%	\$2.23			

Note: The Decoupled Model table does not include Puerto Rico- so (it only shows 16 jurisdictions).

Source: Economic Policy Institute, Minimum Wage Tracker (as of June 15th 2026)

Figure 2 – Gratuity Minimum Wage Policy Landscape (2026)



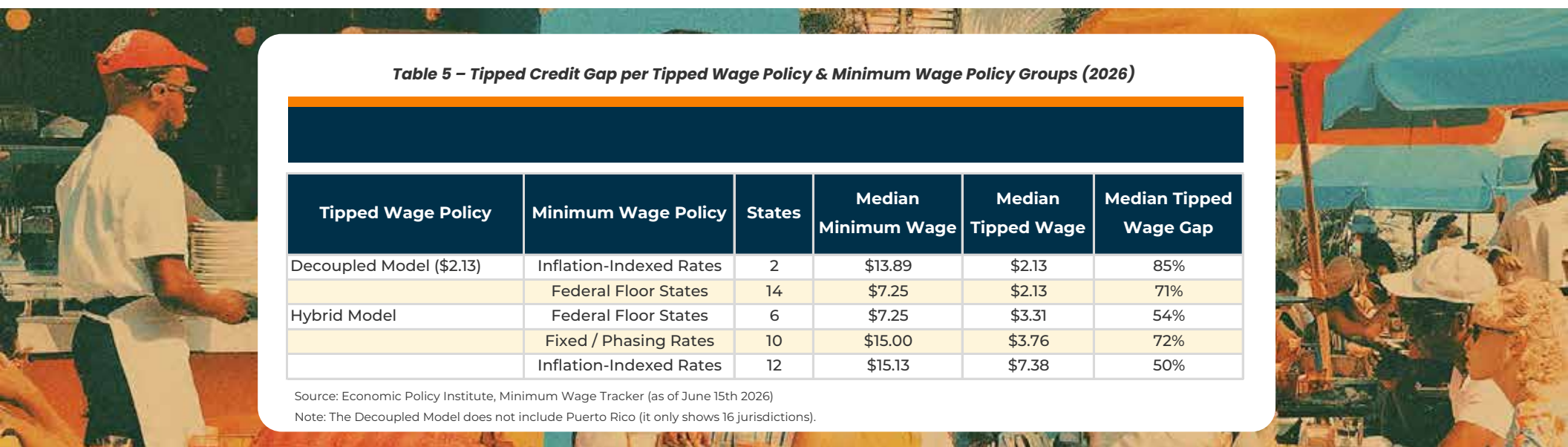


Table 5 – Tipped Credit Gap per Tipped Wage Policy & Minimum Wage Policy Groups (2026)

Tipped Wage Policy	Minimum Wage Policy	States	Median Minimum Wage	Median Tipped Wage	Median Tipped Wage Gap
Decoupled Model (\$2.13)	Inflation-Indexed Rates	2	\$13.89	\$2.13	85%
	Federal Floor States	14	\$7.25	\$2.13	71%
Hybrid Model	Federal Floor States	6	\$7.25	\$3.31	54%
	Fixed / Phasing Rates	10	\$15.00	\$3.76	72%
	Inflation-Indexed Rates	12	\$15.13	\$7.38	50%

Source: Economic Policy Institute, Minimum Wage Tracker (as of June 15th 2026)
Note: The Decoupled Model does not include Puerto Rico (it only shows 16 jurisdictions).

The tipped credit gap shows the same issue in dollar terms. In Puerto Rico, the difference between the \$10.50 general minimum wage and the \$2.13 tipped cash wage is \$8.37 per hour. This means that a large share of the workers' required minimum compensation may be satisfied through tips rather than direct employer-paid wages. This structure differs from parity jurisdictions, where tipped workers receive the full minimum wage directly from the employer, and from hybrid jurisdictions, where the tipped cash wage is above \$2.13 but below the general minimum wage.

Taken together, the percentage and dollar gap comparisons show that Puerto Rico's tipped wage framework has not moved in parallel with its general minimum wage framework.

This trend follows the Federal minimum wage which decoupled the general minimum and tip minimum wages after 1991. For non-tipped covered workers, Act 47-2021 moved Puerto Rico above the federal minimum wage. For tipped workers, Puerto Rico remains tied to the federal tipped cash wage.

The preceding comparisons establish Puerto Rico's position in nominal statutory terms, both for the general minimum wage and for tipped workers. However, nominal wage comparisons are incomplete because the same hourly wage does not provide the same purchasing power across jurisdictions. A \$10.50 wage floor in Puerto Rico must therefore be evaluated not only against the federal minimum wage and state wage floors, but also against the cost of living faced by workers in Puerto Rico (see Part IV – Main Findings).

How the report is organized

The preceding sections establish the policy and institutional context for the analysis. They describe the role of the minimum wage, the worker categories that require separate treatment, Puerto Rico's framework for evaluating minimum wage policy, and the Island's position relative to U.S. states in terms of nominal wages. The remainder of the report moves from that context to examining labor market conditions, observed outcomes, and scenario estimates relevant to the Commission's evaluation process.

Part II presents the methodology and data sources used throughout the analysis. It describes the administrative and statistical datasets used to identify covered workers, employers, industries, and geographic areas. The section also outlines the population selection criteria and microsimulation framework used to estimate potential outcomes under selected wage scenarios.

Part III provides an overview of Puerto Rico's labor market. The section examines population trends, labor dynamics, wage and income distribution, public assistance thresholds, full employment constraints, and the potential exposure of Artificial Intelligence (AI) in occupations. These topics provide important context because minimum wage policy operates within a labor market shaped by demographic change, labor force participation, sectoral employment patterns, productivity trends, geographic variation, and the interaction between earnings and public assistance programs.

Part IV presents the report's principal findings. It begins with an assessment of observed outcomes following implementation of the \$10.50 minimum wage in July 2024, comparing the most recent available data with the estimates developed in the prior report. The analysis examines employment, wages, establishments, labor force conditions, worker exposure to the wage floor, and the extent to which observed outcomes aligned with or differed from prior projections.

Subsequent sections examine cost of living conditions and special coverage issues. The cost of living analysis evaluates Puerto Rico's current wage floor relative to state minimum wages, inflation adjusted purchasing power, and the cost of basic goods and services. The special coverage analysis focuses on tipped workers, exempt workers, and agricultural workers (whose treatment under wage and hour regulations differs from that of the general workforce).

The report then presents microsimulation results for selected scenarios. These simulations estimate potential effects under alternative general minimum wage levels, gratuity wage levels, and exempt salary thresholds. Rather than replacing observed labor market considerations, the simulations provide a structured framework to compare potential adjustments using consistent assumptions and the most recent available administrative records.

The report concludes with a synthesis of the research presented throughout the analysis.



METHODOLOGY & DATA SOURCES

PART II: METHODOLOGY & DATA SOURCES

Data Gathering

As with the previous minimum wage analyses prepared for the Minimum Wage Commission, the first phase of this report consisted of an extensive data collection process. Several administrative and statistical data sources were requested, processed, standardized, and integrated to support both the descriptive analysis and the microsimulation estimates. The current report builds on the methodology developed in previous analyses, but its purpose differs from that of earlier reports. The prior general minimum wage report was prepared before implementation of the scheduled increase to \$10.50 and provided a series of analytical scenarios designed to estimate the potential labor market and economic effects associated with that adjustment.

Relative to the prior reports, the current data update extends the core administrative records through 2025-Q4. The model used records from 2019-Q1 through 2025-Q4, providing seven full years of quarterly administrative data. This coverage includes all four quarters of 2025, the first complete calendar year after implementation of the \$10.50 minimum wage. As a result, the current analysis incorporates a fuller post-implementation period than the prior report, including observed labor market and business responses after the 2024 increase.

The data collection process was designed to support three primary analytical objectives. First, the report updates the assessment of Puerto Rico's labor market and minimum wage conditions following implementation of the \$10.50 wage floor. Second, it identifies the workers, businesses, industries, and geographic areas most directly affected by the prevailing minimum wage. Third, it develops the data and analytical framework required to estimate selected scenarios involving the general minimum wage, the gratuity wage, and the exempt salary threshold.

The main data sources used in the analysis are the following:

1. **Puerto Rico Department of Labor and Human Resources**
 - a. Quarterly unemployment filings. These filings include wage information reported by employers for each employee. The current analysis uses quarterly unemployment records updated through 2025-Q4, providing seven years of quarterly administrative wage and employment data for the model. This coverage includes the full 2025 calendar year, the first complete year after implementation of the \$10.50 minimum wage.

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- b. ES-202 employment data. This is a quarterly employment database used to construct the Quarterly Census of Employment and Wages (QCEW). The current analysis uses ES-202 records updated through 2025-Q4 where available.

2. Puerto Rico Department of the Treasury

- a. Business income and cost data by industry. These data are extracted from business tax returns and include revenues by source and expenditures by category, organized at the three-digit NAICS level. In the previous methodology, these data covered tax years 2019 through 2024. For subsequent years, industry level revenues and expenditures are estimated using observed wage data and historical business information, as described below.

3. Puerto Rico Department of Agriculture

- a. Agricultural wage subsidy and related program data. These data include wage subsidy information by bona fide farmer or business, as well as information on Christmas bonus payments and coffee bushel bonus payments where available. These records are used for descriptive review of agricultural compensation and support mechanisms. They are not used to develop a new agricultural microsimulation scenario in the current report because the available data present certain limitations that make them less suitable as a simulation baseline.

4. U.S. Census Bureau

- a. Puerto Rico 2024 Current Population Survey (CPS) and American Community Survey Public Use Microdata Sample (PUMS) data for 2024. These data are used to estimate average overtime hours worked across industries in Puerto Rico. This information is required for evaluating exempt worker scenarios because administrative wage records identify income thresholds but do not, by themselves, provide a direct measure of overtime hours.

All administrative datasets were anonymized before analysis. Substituted unique identifiers were used to protect the privacy of workers and businesses while allowing records to be linked across data sources. The report presents only aggregate statistics consistent with applicable confidentiality requirements. No individual worker or business is identified.

Worker Level

The quarterly unemployment filings serve as the primary worker level data source used throughout the analysis. These records contain monthly wage information reported by employers for each employee, making it possible to construct a longitudinal baseline of workers and earnings across quarters. The data support the identification of workers earning the prevailing minimum wage, workers earning near the minimum wage, and individuals holding more than one job during the year. They also provide the basis for analyzing employment dynamics, turnover,

tenure with the same employer, and annual earnings patterns among minimum wage workers.

An important advantage of these records is the capacity to distinguish between workers and jobs. Because some individuals work for multiple employers during the same year, job counts do not necessarily correspond to worker counts. The availability of worker level identifiers allows the analysis to identify multiple jobholders and examine whether they earned the minimum wage in one or more positions.

Employer & Industry

To provide employer and geographic context, the quarterly unemployment records were merged with ES-202 data. These records supply establishment level information on industry classification, business location, and operational status. Through this integration, each employer is assigned a NAICS classification and geographic location, while information on business openings and closures supports the analysis of employer exposure over time. The resulting database makes it possible to examine minimum wage exposure across industries and municipalities.

In addition, business tax return data from the Department of the Treasury provide the financial information required for the employer side of the microsimulation model. These records contain industry level information on revenues and expenditures, including labor costs, materials, utilities, inventory, administrative expenses, and other operating costs. Together, these variables provide the foundation for estimating how changes in wages may affect labor costs, overall business expenses, operating margins, pricing decisions, and employer exposure across industries.

Because complete tax return information is not yet available for all years included in the analysis, business revenues and expenditures are estimated for more recent periods using observed wage data and historical business records. When prior tax return information exists, estimates are based on each firm's historical financial structure. For businesses without sufficient historical information, estimates are derived from average parameters observed among firms operating within the same three-digit NAICS industry. This approach allows the model to incorporate firms with incomplete reporting histories while maintaining a consistent framework for estimating costs and revenues.

Special Worker Categories

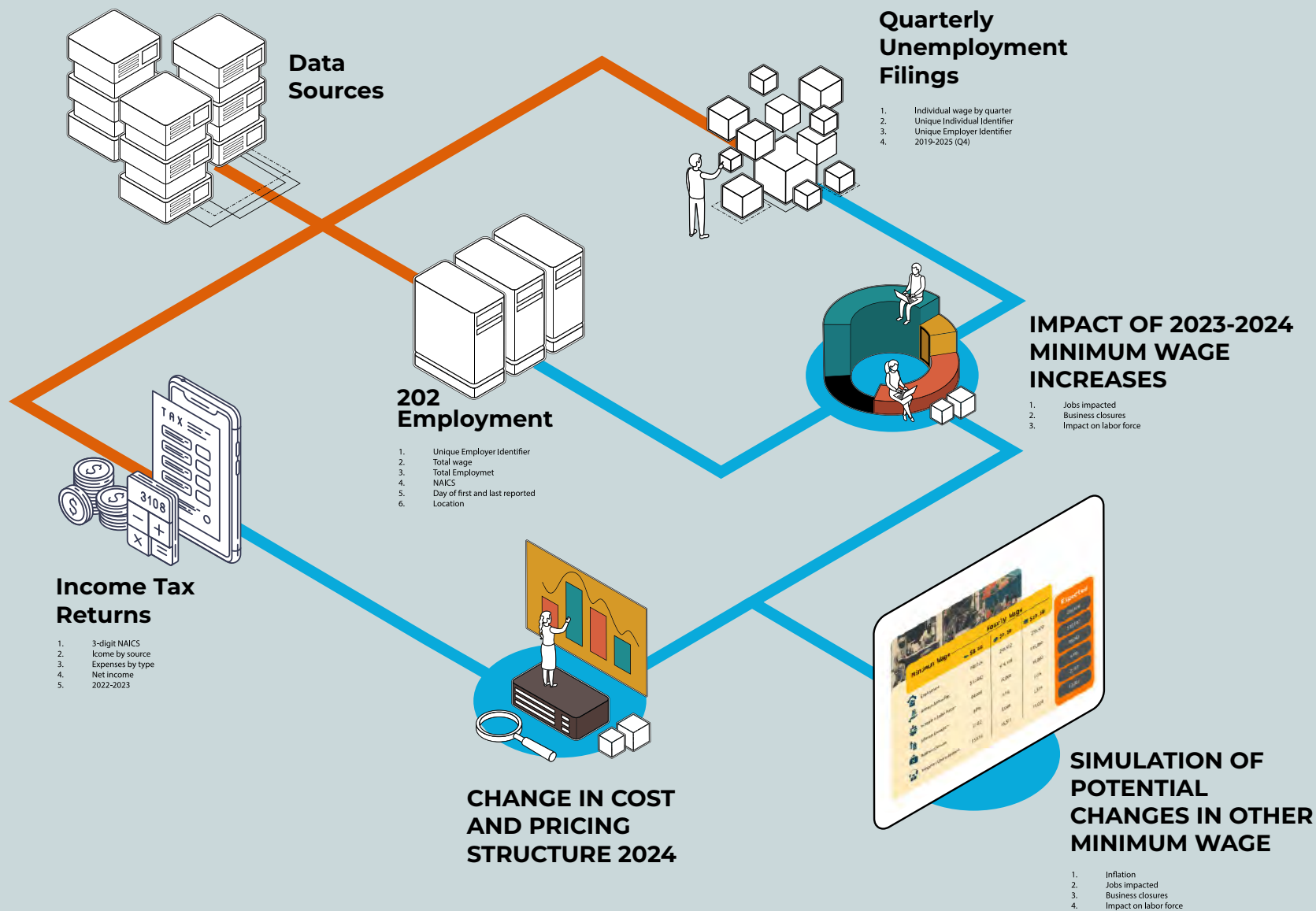
For exempt workers, administrative wage records are used to identify workers who meet selected salary thresholds. However, income information alone is not sufficient to determine legal exempt status, which also depends on the salary requirement and the duties test. Consequently, the data are used to estimate the income screen component of potential exempt status rather than to determine whether any individual worker is legally exempt. To evaluate the potential implications of alternative exempt salary thresholds, CPS and PUMS data are used to estimate average overtime hours across industries, an important input for assessing potential employer costs.

For agricultural workers, data were gathered from the Department of Agriculture and reviewed alongside agricultural employment and wage indicators. The sources include wage subsidy records, Christmas bonus records, and coffee bushel bonus records. The data sources are relevant because agricultural compensation in Puerto Rico may combine hourly wages with support of subsidy payments. However, the current report does not include a new agricultural microsimulation (see Population Selection for details). This analysis will be developed separately in a future report and incorporated as an appendix to the current report once the underlying data are sufficiently suitable for simulation purposes.

The study is built on seven full years of quarterly administrative records, from 2019-Q1 to 2025-Q4.



Figure 3 – Data Workflow





POPULATION SELECTION

Population Selection

Once the analytical database was assembled, the next step consisted of defining the worker and employer populations used in the descriptive analysis and microsimulation estimates. Consistent with the previous minimum wage study (prepared for the Commission), population selection begins at the worker level and then expands to employers, industries, and geographic areas. This strategy makes it possible to evaluate minimum wage exposure from the perspective of workers, businesses, industries, and local labor markets while maintaining a consistent analytical framework across all components of the study.

Population selection differs across the general minimum wage, gratuity wage, exempt salary threshold, and agricultural worker analyses because each category is governed by distinct wage provisions and data requirements. While several selection criteria are shared across categories, additional rules are applied where necessary to reflect differences in compensation structures, legal coverage, and available administrative information.

For the **general minimum wage** analysis, the relevant population consists of private, non-agricultural employees. Public sector workers are excluded because the analysis focuses on private sector workers and employers covered by the general minimum wage framework. Agricultural workers are also excluded from the general minimum wage population because they are treated separately under Puerto Rico's

minimum wage structure and are reviewed as a special worker category.

The analysis includes workers earning the prevailing minimum wage as well as workers earning near the minimum wage. This broader definition recognizes that minimum wage adjustments may affect wages above the statutory floor through wage ladder effects and employer efforts to preserve wage differentials across positions. For simulation purposes, the potentially affected population includes workers earning up to 115 percent of the applicable or simulated minimum wage.

Because quarterly unemployment filings report monthly earnings rather than hourly wages, a series of selection criteria is applied to identify workers whose earnings are consistent with minimum wage employment and to reduce the likelihood of misclassifying workers who began working late in the month, left employment before the end of the month or belonged to a worker category subject to separate wage treatment.

Workers are classified as minimum wage workers if they meet the following criteria:

- Employed by the same employer for at least two quarters during the year.
- Monthly income greater than \$500 during the relevant period.
- Monthly income below the equivalent of the applicable minimum wage at 35 hours per week.

The above criteria are intended to reduce the influence of temporary employment relationships, seasonal fluctuations, and partial month employment while improving the identification of workers whose earnings are consistent with minimum wage employment. The use of a 35 hour threshold is consistent with the full-time employment definition commonly used by the U.S. Bureau of Labor Statistics.

Employers associated with the selected worker population are included in the employer level analysis when employing at least one minimum wage worker for two quarters or more during the year. This threshold helps distinguish businesses with sustained exposure to the minimum wage from those with only brief or incidental observations. Because workers can be tracked across employers, the analysis separately identifies multiple jobholders and avoids double counting individuals who appear in more than one employment relationship during the year. This distinction is particularly important when estimating the number of workers affected by the minimum wage, as a single worker may hold multiple jobs simultaneously.



The population selection process for **gratuity workers** reflects the distinct treatment of tipped compensation under wage and hour regulations. The analysis relies on administrative wage records. Because gratuity workers may receive a direct cash wage below the general minimum wage, employer paid wages cannot be interpreted in the same manner as wages for the general minimum wage workers.

Workers are included in the gratuity worker population if they meet the following criteria:

- Employed by a private sector employer.
- Employed by the same employer for at least two consecutive quarters during the year.
- Monthly earnings of \$500 or less during the relevant period.
- Identified through wage records.

The gratuity worker population is therefore narrower than the full accommodation and food services workforce. Not all workers in NAICS 72 are gratuity workers, and not all gratuity workers can be identified if tip income or gratuity wage treatment is not reported in administrative records. Thus, the estimates represent the portion of the gratuity workforce observable through official administrative data.

For **exempt workers**, the selected population is focused on the income component of potential exempt status. Administrative wage records make it possible to identify workers whose earnings meet selected salary thresholds under alternative scenarios. However, as stated before, income information alone is insufficient to determine legal exempt status, which also depends on the salary requirement and the duties test.

Workers are included in the exempt worker analysis if they meet the following criteria:

- Employed by a private sector employer.
- Employed by the same employer for at least two consecutive quarters during the year.
- Earn at least the relevant weekly salary threshold during the period analyzed.

The resulting estimates identify workers who meet or exceed a specified salary threshold³.

³ Workers classified as potentially affected under this analysis may or may not satisfy the duties and salary requirements associated with executive, administrative, professional, outside sales, or computer-related exemptions.

Agricultural workers are treated differently from the other worker categories analyzed in this report. Previous studies relied on Department of Agriculture records, including wage subsidy, Christmas bonus, and coffee bushel bonus data, to establish a baseline population and evaluate agricultural wage scenarios.

For the current report, these records were reviewed for descriptive and contextual purposes but were not used to construct a new agricultural microsimulation population. The available data presented certain limitations that reduced their suitability for establishing a reliable baseline of covered workers, subsidy recipients, subsidy amounts, effective wage support, and employer exposure. Because microsimulation analysis requires a consistent baseline population, agricultural workers are discussed as a special category but are excluded from the current simulation estimates. As a result, the information is used primarily for descriptive and contextual purposes.



The size of each type of job



1 ICON = 5,000 WORKERS



Applicable Exempt



45.6%

343,769



Minimum Wage



30.4%

256,479



Gratuity



2.1%

15,478

Sum will not be equal to 100%

Simulation & Estimates

The report uses a microsimulation model to estimate the potential effects of selected wage policy scenarios. The model evaluates impacts across three interconnected dimensions: workers, businesses, and prices. At the worker level, it estimates changes in earnings and compensation. At the business level, it evaluates changes in labor costs, operating margins, and potential business exposure. At the market level, it estimates how cost increases may be transmitted through prices and interindustry relationships.

Microsimulation is particularly useful in minimum wage analysis because exposure varies considerably across workers, firms, industries, and geographic areas. Rather than applying a single average effect to the economy as a whole, the model evaluates impacts at the individual worker and business level and then aggregates those effects to estimate broader labor market outcomes.

The current model builds upon the framework developed for the previous Minimum Wage Commission study while incorporating updated administrative records and observed outcomes following implementation of the \$10.50 wage floor. The objective is not to forecast a single future outcome, but rather to evaluate the potential implications of alternative scenarios under a consistent framework.

The model is dynamic rather than purely static. A static model holds the population constant across iterations. A dynamic model allows the simulated environment to account for changes such as business entry, business closure, labor market participation, and transitional unemployment.

The simulation follows a two-stage process. In the first stage, worker and business impacts are estimated separately. The worker component identifies individuals affected by each scenario and estimates corresponding changes in earnings and employer paid compensation. The business component evaluates how those wage changes affect labor costs, operating margins, and business exposure using firm level and industry level information.

In the second stage, the model incorporates indirect effects across industries. Cost increases experienced by one business may affect other businesses through supply chain relationships, intermediate purchases, and price adjustments. The simulation therefore allows cost and price effects to propagate through the production structure until the system reaches a new equilibrium.

Business adjustment behavior is informed by observed responses to the scheduled minimum wage increases implemented in 2022, 2023, and 2024, where data are available. When firm specific adjustment patterns can be observed, those patterns are incorporated directly into the simulation. Otherwise, the model relies on average adjustment behavior

among firms operating within the same NAICS industry (at three digits).

The first-stage worker component begins with the population selected in the previous subsection. For the general minimum wage scenarios, the model identifies private, non-agricultural workers earning below the simulated wage floor and workers earning near the simulated wage floor. For simulation purposes, the affected group includes workers earning up to 115 percent of the simulated minimum wage. This threshold captures the fact that minimum wage changes may affect workers who earn slightly above the statutory floor, as firms adjust wage ladders, preserve wage differentials, or respond to compression in the lower part of the wage distribution.

The wage increase is first applied to workers whose observed wages fall below the simulated wage floor. Workers earning above the simulated floor but within the affected band may also receive wage adjustments. For all scenarios, increases in wages also increase related labor costs, including employer payroll taxes and other costs linked to payroll. The model therefore estimates both the direct increase in wages paid to workers and the broader increase in employer labor costs.

The first-stage business component estimates the effect of simulated wage changes on business costs and margins. Businesses are linked to workers through quarterly unemployment filings and to industry and location information through ES-202 data. Business income and cost structures

are estimated using Department of the Treasury business tax return data. These cost structures include labor costs, utilities, materials and equipment, inventory, services, administrative costs, and other expense categories. Income variables include service income, manufacturing income, sales of goods, and other income sources. These variables allow the model to estimate how wage changes affect labor costs relative to total costs and income.

The model evaluates business adjustment behavior using observed responses to recent scheduled minimum wage increases. The current report incorporates observed adjustment patterns associated with the 2022, 2023, and 2024 minimum wage increases, where the available data allow. These prior increases provide evidence on how businesses adjusted to higher wage floors in practice. The behavior examined includes changes in employment, changes in workdays or workweeks, changes in labor costs, price adjustments, and business closures. These observed patterns are used to inform the simulated behavior of businesses under the new wage scenarios.

When a business has its own prior adjustment history, the model uses that history to estimate its potential response. When firm-specific prior behavior is not available, the model uses the average behavior of businesses in the same three-digit NAICS industry. This industry-based fallback is necessary for new businesses, businesses without complete prior records, and businesses that were not affected by earlier increases.

The fallback procedure allows the model to retain relevant businesses in the simulation without assuming that all firms respond identically.

The second stage of the model combines the worker and business components and incorporates interindustry effects. This stage recognizes that a wage increase can affect directly exposed businesses and may also affect other businesses through intermediate goods and services. If one business raises prices because its labor costs rise, that price increase may become a cost increase for another business. The second stage therefore allows price and cost adjustments to pass through the production structure until the model converges.

During the second stage, businesses may adjust through price changes, labor cost adjustments, or behavior consistent with their prior observed responses or with the average behavior of their industry. The model evaluates whether businesses remain viable after these adjustments. A business closure is estimated only when the business shows a negative margin after the relevant wage, cost, price, and interindustry adjustments are incorporated. The model does not classify a business as closing simply because labor costs rise. The business must remain at a loss after the adjustment process is completed.

The model also estimates temporary or transitional unemployment associated with business closures. Workers employed by businesses estimated to close are treated as temporarily unemployed in the simulation. This measure should

not be interpreted as permanent job loss. It captures transitional unemployment generated by estimated business closures within the model, recognizing that displaced workers may later find new employment, leave formal salaried employment, become self-employed, migrate, retire, or exit the labor force for other reasons.

For gratuity workers, the model is adapted to the direct cash wage paid by employers. The relevant policy variable is the employer-paid gratuity minimum wage, not the general minimum wage. Because gratuity workers may receive tips in addition to employer-paid wages, the model distinguishes between the direct cash wage and reported tip income where administrative data allow. The simulated increase applies to the employer-paid wage component. Reported tip income helps identify and contextualize the population of gratuity workers, but the simulation focuses on the direct wage obligation affected by the gratuity minimum wage scenarios.

For exempt workers, the model requires a separate procedure because the simulated policy variable is a weekly salary threshold rather than an hourly wage floor. The administrative wage data are used to identify workers whose earnings fall below, meet, or exceed selected weekly salary thresholds. These estimates identify workers who meet the income screen for potential exposure to a threshold change. They do not determine legal exempt status. Legal exemption also depends on the salary basis requirement and the duties test.

The simulations for exempt workers also require information on overtime exposure. Administrative wage records identify earnings and employers, but they do not provide a complete measure of overtime hours by industry. For this reason, the model uses Puerto Rico Current Population Survey and American Community Survey Public Use Microdata Sample data to estimate average overtime hours by industry. These estimates are used to approximate the cost implications of raising the exempt salary threshold. The relevant cost effect arises when workers who would no longer meet the income screen for exempt status would have to be treated as non-exempt for wage and hour purposes, subject to overtime compensation where applicable.

The model for exempt workers therefore combines three elements: the number of workers affected by each weekly salary threshold, the estimated overtime exposure by industry, and the business cost structure of employers in the affected industries. These elements are used to estimate potential effects on labor costs, prices, business margins, and business closures. The simulation captures the implications of threshold changes for payroll and overtime costs. It does not separately estimate administrative, accounting, or compliance costs associated with reclassifying workers, unless those costs are explicitly incorporated in the underlying model inputs.

Agricultural workers are not included in the current microsimulation results. Agricultural employment, wages, and subsidy mechanisms are reviewed descriptively in the report,

but the available agricultural subsidy and bonus data are not used to construct a new simulation baseline. The data reviewed for agricultural wage subsidies, Christmas bonus payments, and coffee-related subsidies showed inconsistencies that limit their use for estimating worker coverage, effective wage support, subsidy amounts, and employer exposure. Because the model requires a consistent baseline population and cost structure, the current simulations are limited to the general minimum wage, gratuity minimum wage, and exempt salary threshold scenarios.

The model produces several output measures for each scenario. These include the number of affected workers, the estimated change in wages or salary costs, the estimated price effect after model convergence, the estimated number of business closures, and the estimated number of temporarily unemployed workers associated with those closures. The specific scenario definitions and results are presented later in the report using the updated 2026 scenario tables.

The results should be interpreted as scenario estimates rather than forecasts. The model estimates the potential effects of selected wage scenarios using administrative data, observed prior adjustment behavior, industry-level fallback assumptions, overtime estimates where needed, and current scenario definitions. It does not determine a single correct wage level, and it does not eliminate uncertainty about future labor-market conditions. Actual outcomes will depend on inflation, productivity, consumer demand, federal funds, migration, labor supply, firm margins, sector-specific conditions, and the timing and implementation of any future wage adjustment. The value of the model is that it provides a consistent empirical structure for comparing the relative scale and distribution of potential effects across scenarios.





LABOR MARKET LANDSCAPE

PART III: LABOR MARKET LANDSCAPE

Population Trends

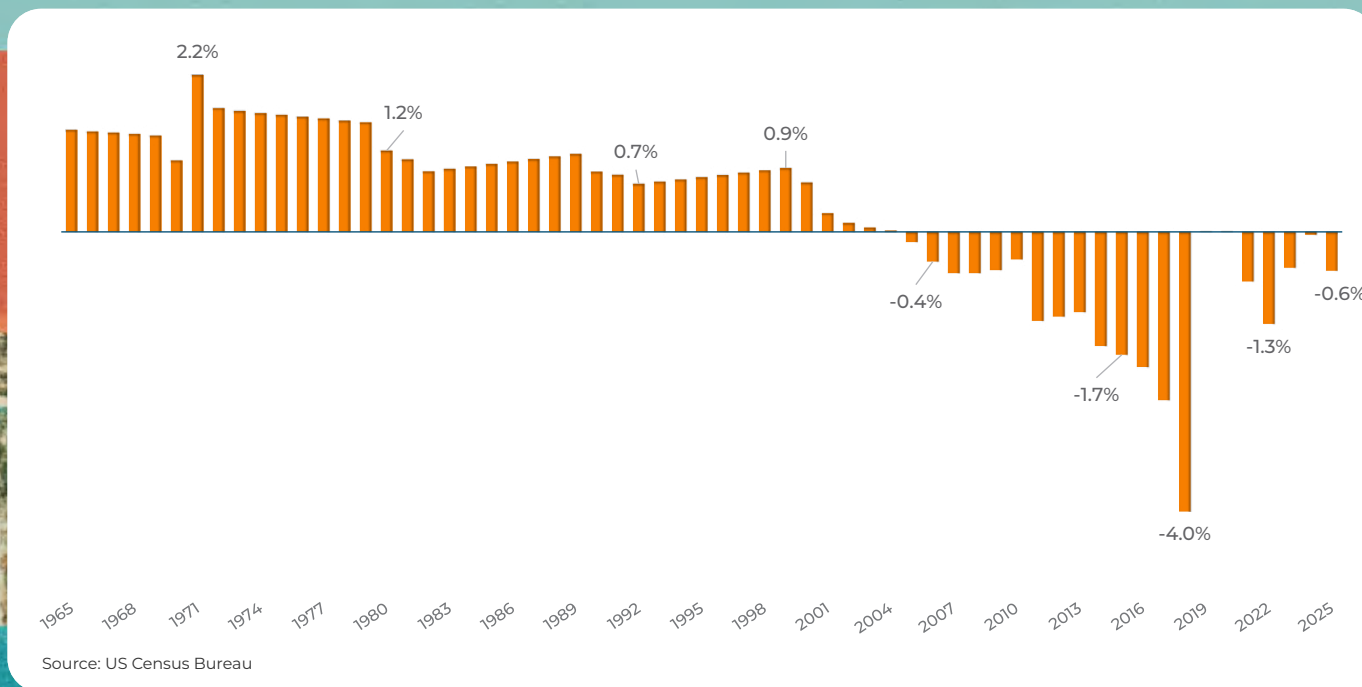
Demographic conditions shape the environment within which labor markets operate. The size of the population influences the number of workers potentially available to employers, while the age structure affects workforce replacement, retirement patterns, and future labor force growth. For this reason, population trends provide vital context for evaluating labor market conditions and the broader setting in which wage policy is considered.

Interpreting these trends, however, requires recognizing that population change is influenced by a wide range of demographic, social and economic factors. Migration, fertility, mortality, housing costs, public services, family networks, employment opportunities, and overall economic conditions all contribute to population dynamics. Wage levels represent only one element within this broader set of influences. Nevertheless, labor market conditions and compensation opportunities form part of the economic environment that may affect decisions related to labor force participation, and the long-term resilience of Puerto Rico's workforce.

Figure 4 presents the annualized percentage change in Puerto Rico's total population from 1965 through 2025. The data shows a transition from sustained population growth during earlier decades to persistent population decline beginning after 2005. The decline intensified around 2020 before moderating somewhat in more recent years, although population losses have continued. This shift is pivotal because labor markets operating within a declining population face different long-term constraints than labor markets supported by sustained demographic growth. A smaller population can place limits on the future supply of workers unless offset by multiple factors.



Figure 4 – Percentage Change in Total Population (Annualized, 1965 – 2025)

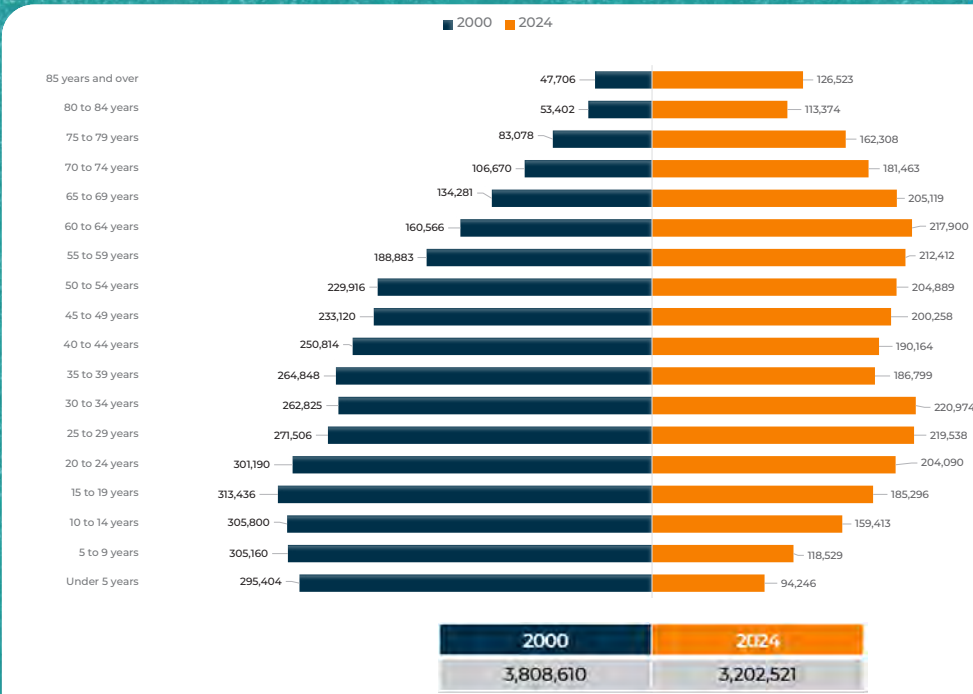


Also, population decline has occurred alongside a substantial recomposition in Puerto Rico's age structure. Figure 5 presents the distribution of the population by age group in 2000 and 2024. Compared with 2000, younger age groups account for a smaller share of the population, while older age groups represent a larger share. As a result, Puerto Rico's demographic profile today differs significantly from that observed at the beginning of the century.

From an economic and workforce perspective, the age composition of the population is as important as its overall size. A larger older population increases the share of residents approaching or entering retirement, while smaller younger generations reduce the pool of potential future workers. As shown in Figure 5, these changes have not been distributed evenly across age groups. The most pronounced declines occurred among residents under 25 years of age, the segment

that traditionally represents the primary source of new entrants into the workforce. Although demographic decline does not necessarily translate into a proportional reduction in employment, the shrinking size of younger generations implies that future workforce growth may depend increasingly on labor force participation, migration patterns, and the retention of working-age residents.

Figure 5 – Population Distribution by Age Group (2000–2024)



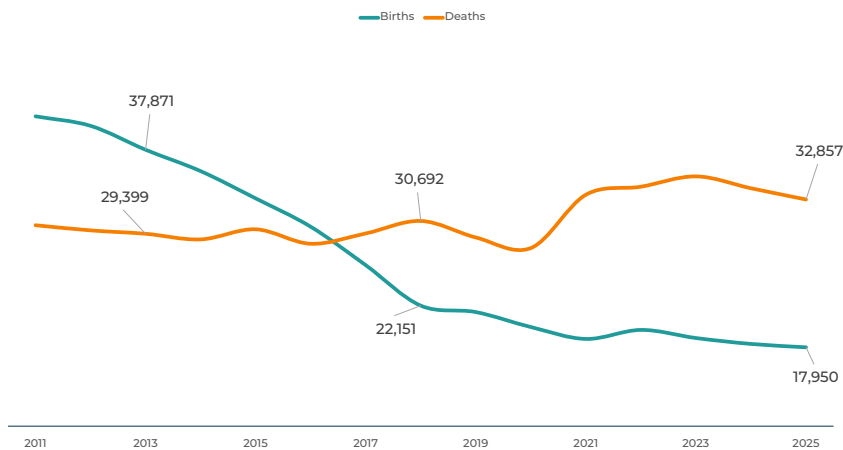
Source: US Census Bureau



The future workforce pipeline is smaller than it was two decades ago.

The aging process is reinforced by reduced demographic replacement. Figure 6 compares births and deaths between 2011 and 2025. Since 2016, annual deaths have exceeded births, resulting in a sustained period of negative natural population growth. While this measure is not a direct labor market indicator, it provides additional context of the demographic conditions affecting the Island's population trajectory.

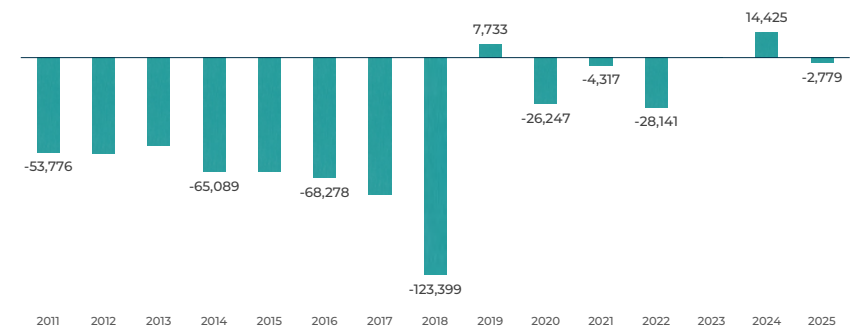
Figure 6 – Births & Deaths in Puerto Rico (2011–2025)



Source: US Census Bureau

At the same time, migration remains one of the principal mechanisms through which population change occurs. Figure 7 shows a continued net outmigration since 2019, with the U.S. Census Bureau's latest population estimates reporting net migration of approximately 47,000 residents between 2020 and 2025. Unlike fertility and mortality, migration can alter population levels over relatively short periods of time. For this reason, migration plays a decisive role in shaping both the size and composition of Puerto Rico's working age population.

Figure 7 – Net Migration (2011–2025)



Source: US Census Bureau



Figure 8 and Figure 9 illustrate the geographic concentration of migration flows between Puerto Rico and the United States. Florida appears as both the largest source of migrants arriving in Puerto Rico and the largest destination for residents leaving the Island. This pattern highlights that Puerto Rico's demographic and labor market dynamics remain closely connected to a relatively small number of U.S. markets.

Figure 8 – Top 10 Total Movers to Puerto Rico from the U.S. (2024)

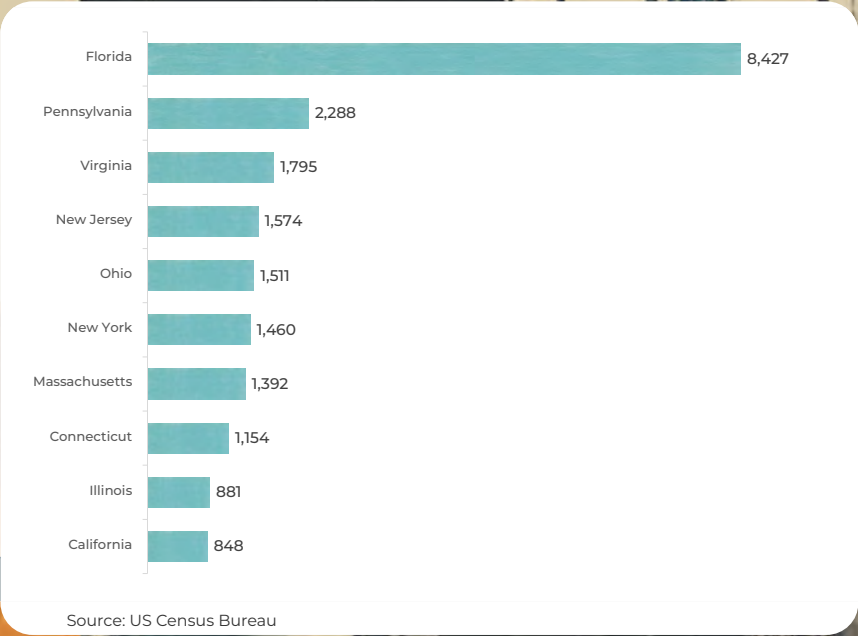
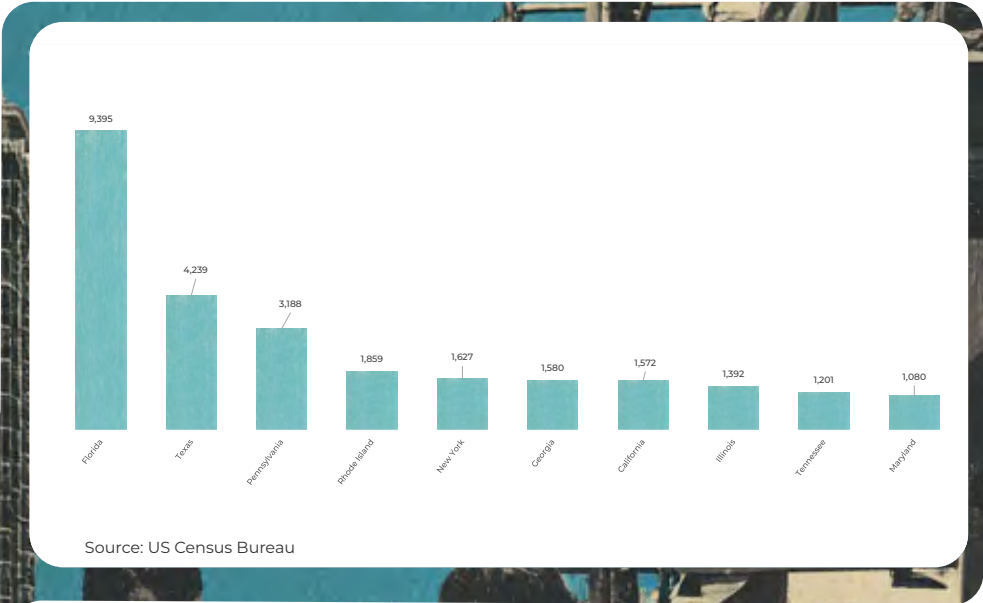


Figure 9 – Top 10 Total Movers from Puerto Rico to the U.S. (2024)



Taken together, the data shows that Puerto Rico's labor market operates within an increasingly constrained demographic environment. The population has declined over the long term, the age structure has shifted toward older cohorts, and migration continues to influence both the size and composition of the population. Nevertheless, demographic trends do not mechanically determine labor market outcomes. Employment could expand through higher labor force participation, workforce retention, increased participation in formal employment, or migration flows that augment the available workforce. Even so, a smaller and older population may limit the pace at which employment can grow over the longer term.

Labor Supply

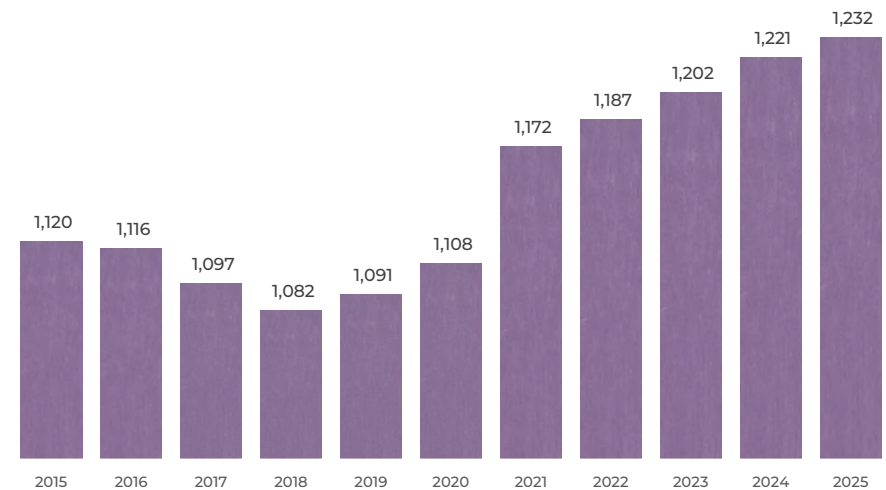
While demographic trends shape the potential size of Puerto Rico's workforce, labor market outcomes also depend on the extent to which residents participate in the labor market. The availability of workers influences labor market conditions, employer hiring capacity, and the broader environment within which wage policy operates. Accordingly, labor supply is shaped not only by population trends, but also by labor force participation, retirement patterns, educational attainment, household circumstances, and the barriers that keep working age residents outside formal employment.

Figure 10 shows that following the disruptions associated with the pandemic period, Puerto Rico's labor force increased each year from 2020 through 2025. Over this period, approximately 124,000 individuals entered the workforce, representing an increase of roughly 11 percent. The rise in labor force participation occurred despite the demographic pressures discussed in the previous section. That is, Puerto Rico continued to experience population decline and population aging during this period, suggesting that recent labor force growth was driven primarily by stronger labor market rather than demographic expansion alone.

The pace of growth has nevertheless moderated in recent years. While labor force participation continued to increase through 2025, annual gains were smaller than those observed during the initial post-pandemic recovery. This shift does not imply that labor force growth has reached a fixed limit, but it does suggest that sustaining future gains may become more challenging.

Puerto Rico added roughly 124,000 people to the labor force between 2020 and 2025.

Figure 10 – Puerto Rico Labor Force



Source: Puerto Rico Department of Labor and Human Resources

Viewed from another perspective, Figure 11 reflects that Puerto Rico’s labor force participation rate reached 44.5 percent in 2025, representing an increase of 4.7 percentage points over the last decade. Most of this improvement occurred after 2020, reinforcing the observation of stronger workforce participation during the post-pandemic period. A similar pattern can be detected in the number of individuals outside the workforce. Figure 12 shows that the population outside the labor force declined by approximately 106,000 individuals following its earlier pandemic-era increase. Collectively, these indicators point to a labor market in which a larger share of residents is either employed or actively seeking employment.

Figure 11 – Labor Force Participation Rate (2015–2025)

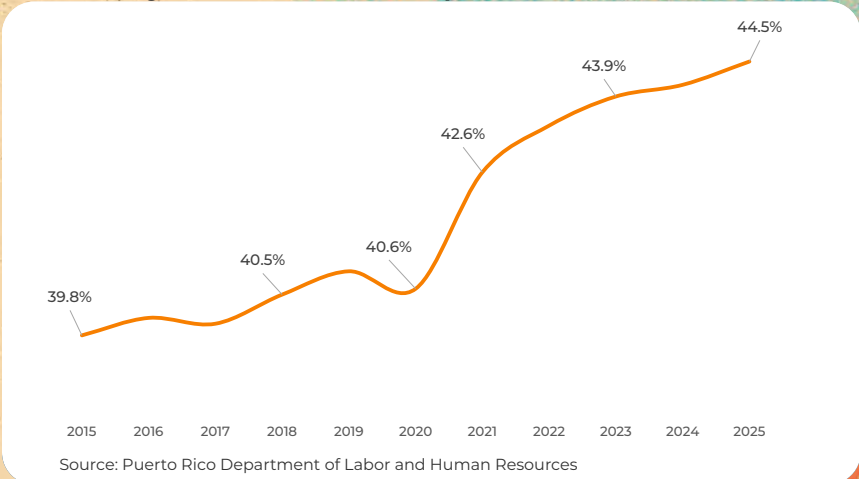
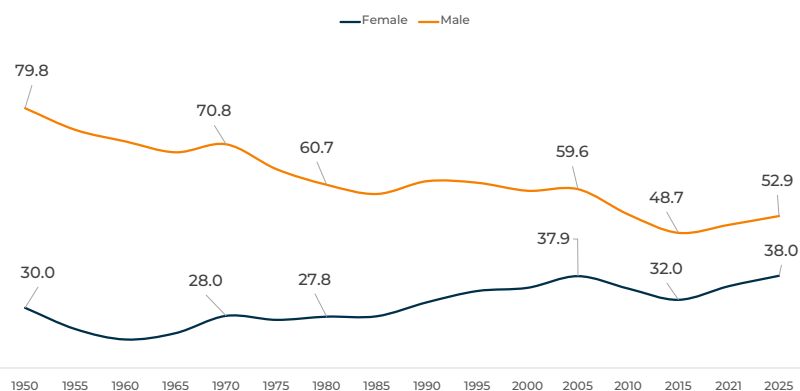


Figure 12 – Population Outside the Labor Force, in Thousands (2015–2025)



A fuller understanding of labor supply involves examining participation patterns across different population groups. Figure 13 presents labor force participation by sex and highlights two long term trends. First, male labor force participation declined substantially over the last several decades. Second, female participation increased gradually, narrowing the historical participation gap. Although participation improved for both groups in recent years, important differences remain. Between 2015 and 2025, male labor force participation increased from 48.7 percent to 52.9 percent, while female participation increased from 32.0 percent to 38.0 percent. These gains contributed meaningfully to overall labor force growth, particularly among women. Nevertheless, female participation remained substantially below male participation in the most recent period.

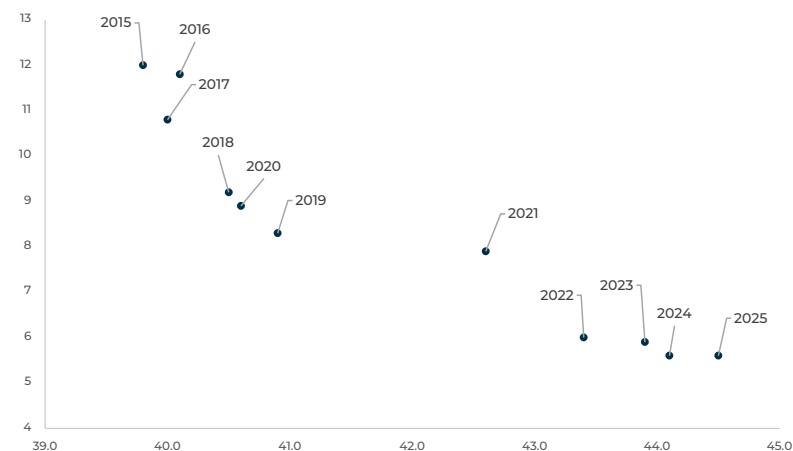
Figure 13 – Labor Force Participation Rate by Sex (1950–2025)



Source: Puerto Rico Department of Labor and Human Resources

Additional validation of improving labor market conditions can be observed in the relationship between participation and unemployment. Figure 14 compares both indicators during the post-2020 period. Over much of this interval, participation increased while unemployment declined, a pattern consistent with a labor market that has been able to absorb a growing number of active workers.

Figure 14 – Relation Between Unemployment Rate & Labor Force Participation Rate (2015–2025)

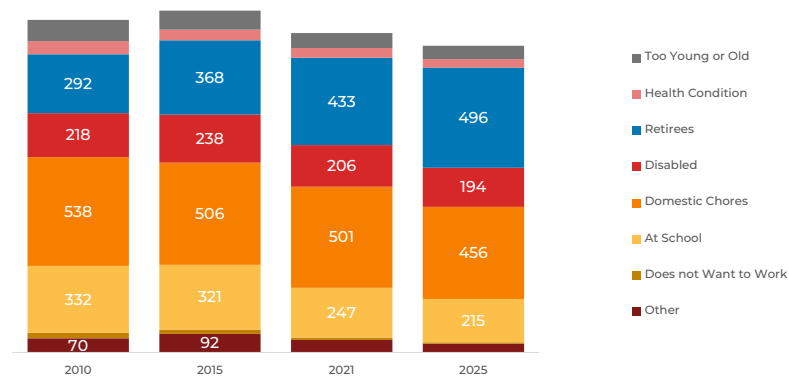


Source: Puerto Rico Department of Labor and Human Resources

Aggregate participation rates do not show the potential reasons why residents remain outside the labor force. Figure 15 provides a more detailed profile of Puerto Rico's recent labor market by disaggregating the population outside the labor force by selected reported reasons, including domestic responsibilities, school attendance, disability, retirement, health conditions, and other barriers to participation. The composition of nonparticipation is relevant since some barriers are more responsive to labor market conditions than others.

As observed, the reduction in the population outside the labor force since 2015 has been associated with declines in domestic responsibilities, disability, and school attendance. At the same time, the number of retirees increased from approximately 368,000 to 496,000 individuals, which has contributed to maintaining the number of individuals outside the labor force at high levels despite the drop in recent years.

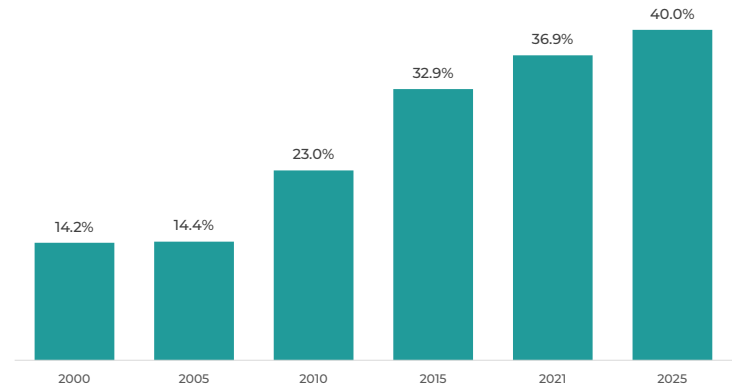
Figure 15 – Reasons for Individuals to be Outside the Labor Force



Source: Puerto Rico Department of Labor and Human Resources

Figure 16 further illustrates this trend by comparing the number of retirees to the active labor force. Retirees represented approximately 14 percent of the labor force in 2000. By 2025, that figure had increased to approximately 40 percent. This shift reflects the broader demographic aging discussed in the previous section and highlights the growing influence of retirement on workforce availability.

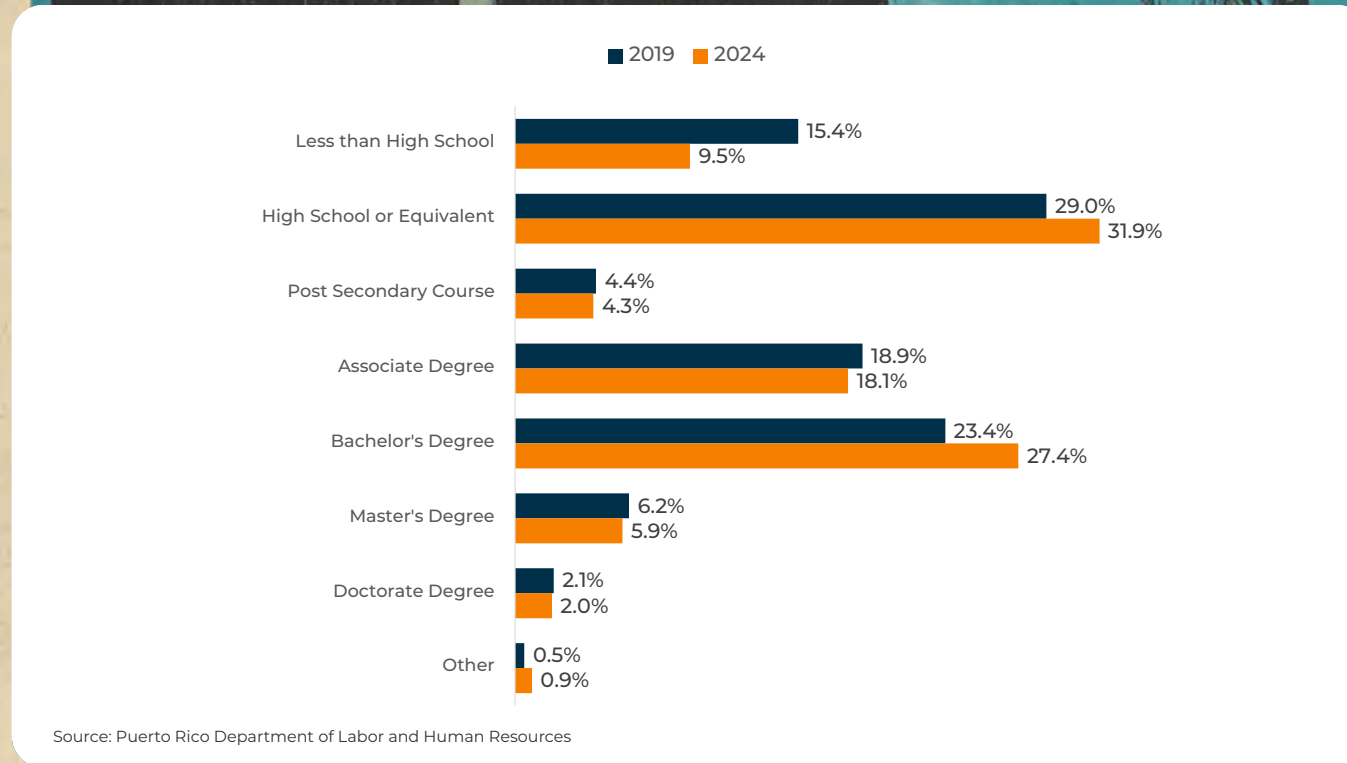
Figure 16 – Retirees as a Share of the Labor Force



Source: Puerto Rico Department of Labor and Human Resources

Figure 17 presents the distribution of employed persons by educational attainment from 2019 to 2024. The chart is useful for assessing the evolution of the educational composition of Puerto Rico’s employed population and, by extension, one dimension of the labor force’s human capital profile. The data shows that an increasing portion of the workforce has been moving to higher educational attainment levels since 2019, as evidenced by a 4 percentage point increase in the share of the workforce with a bachelor’s degree or higher. This has occurred in tandem with a 5.9 percentage point decline in the share with less than a high school degree. This suggests a greater ability of the workforce to perform jobs with higher education requirements.

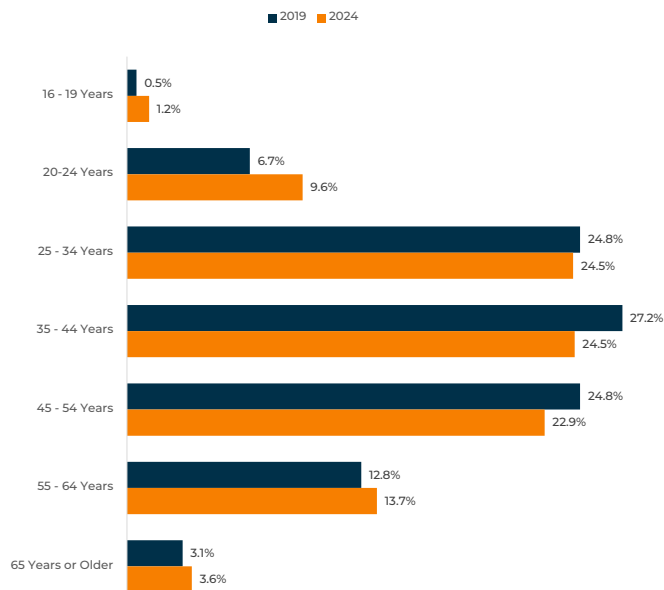
Figure 17 – Employment by Educational Attainment



An important dimension in examining future workforce availability and constraints is the distribution of employed persons by age group. Figure 18 shows the distribution of persons employed by age group for the years 2019 and 2024. It can be seen that an increasing portion of the workforce is concentrated in older age groups. Particularly, the share of workers aged between 25 and 54 years has declined, which

represents the bulk of the prime-age working population. Meanwhile, an increase is observed in the share of workers aged 55 to 64 years old, as well as workers aged 65 years or older. This signals that a growing portion of the working population is approaching retirement.

Figure 18 – Distribution of Employment by Age Group



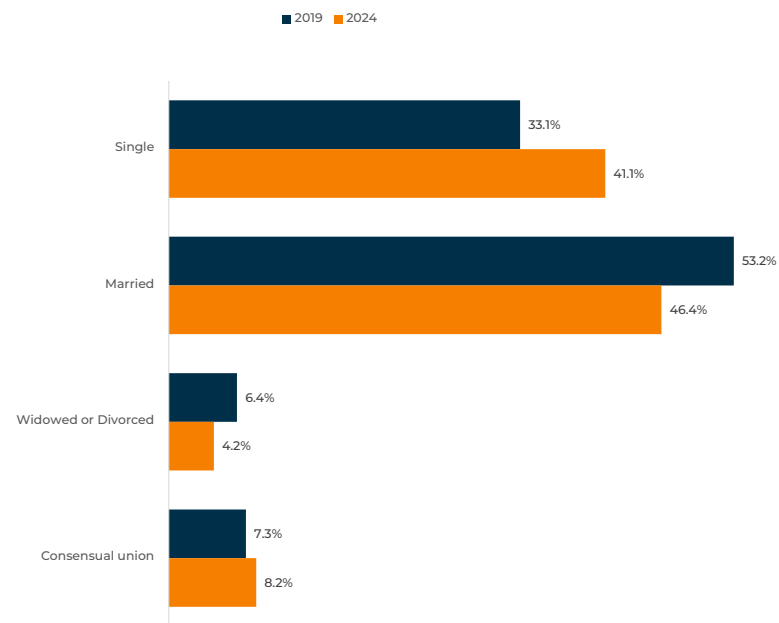
Source: Puerto Rico Department of Labor and Human Resources

A final consideration that must be examined to identify barriers to entry into the labor force is the marital status of the employed population. Figure 19 shows the percentage of families in the labor force by household arrangement for 2019 and 2024.

The data shows a considerable shift in the marital composition of the workforce, which is increasingly comprised of single individuals while the share of legally married individuals

employed has declined. Single individuals now comprise over 40% of the workforce, up from 33% in 2019. Meanwhile, married individuals comprise less than half of the workforce in 2024, as their share has declined from 53.2% in 2019 to 46.4% in 2024. The increasing portion of the workforce comprised of single individuals has important implications for labor supply decisions, as single individuals face higher income tax burdens when they join the workforce.

Figure 19 – Percentage of Families in the Labor Force by Household Arrangement



Source: Puerto Rico Department of Labor and Human Resources

The analysis of the indicators reveals considerable improvements in overall labor force participation in recent years, while the factors that have historically constrained labor supply appear to remain present. Particularly, the data shows an 11% increase in the number of persons participating in the workforce, contributing to an expansion in labor supply in recent years. This is coupled with an increase in the educational attainment levels of the workforce, as shown by a 4 percentage-point increase in the share of the workforce with a bachelor's degree in the past decade. Despite these improvements, demographic factors continue to instill pressure on workforce availability and represent a constraint for future labor supply growth, as evidenced by an increasing number of workers concentrated in older age groups closer to retirement.

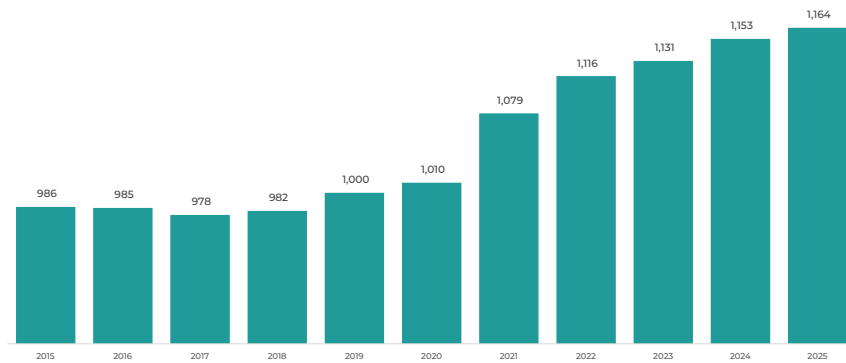


Employment Demand and Labor Market Absorption

The availability of workers is only one dimension of labor market capacity. An equally important consideration is whether Puerto Rico's economy is generating sufficient employment opportunities to absorb the available workforce. Labor demand plays an important role in minimum wage analysis because the effects of wage adjustments depend, in part, on prevailing labor market conditions. Wage increases implemented during periods of strong employment growth may produce different outcomes than those adopted when job creation is slowing, payroll employment is contracting, or labor market slack remains elevated.

Figure 20 presents total employment between 2015 and 2025. As can be observed, employment remained relatively stagnant between 2015 and 2018 before entering a sustained period of growth beginning in 2019. Total employment increased by approximately 164,000 workers between 2019 and 2025, representing growth of roughly 16%. A significant portion of this expansion occurred during the post-pandemic recovery period (approximately 71% of the increase took place between 2020 and 2022), coinciding with the disbursement of federal recovery and reconstruction funds.

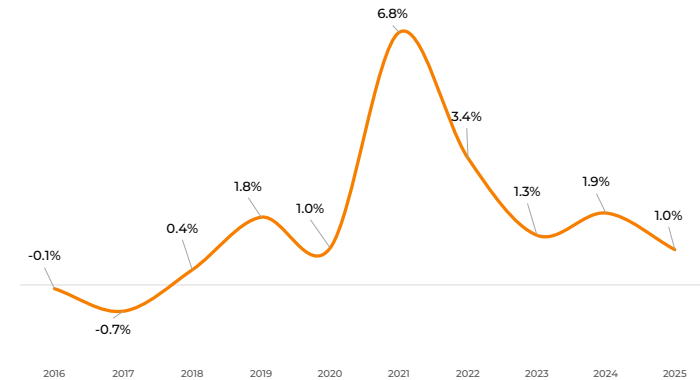
Figure 20 – Total Employment (in thousands, 2015–2025)



Source: Puerto Rico Department of Labor and Human Resources

In terms of the rate of employment growth, Figure 21 illustrates that the strongest gains occurred in 2021 and 2022, when employment increased by 6.8% and 3.4 %, respectively. Since then, employment growth has moderated (growing by less than 2% on an annualized basis). By 2025, employment increased by approximately 1%, representing the slowest rate of growth since the post-pandemic recovery began.

Figure 21 – Percentage Change in Employment (YoY, 2016–2025)

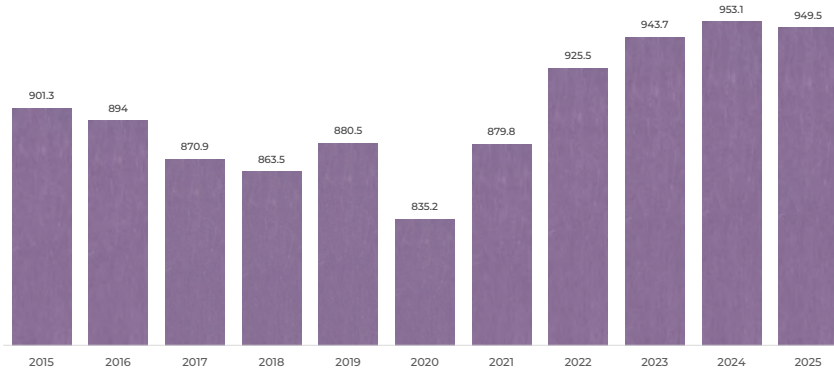


Source: Puerto Rico Department of Labor and Human Resources

A similar pattern can be observed in payroll employment, which provides a more direct measure of employer demand for labor. Non-farm payroll employment (see Figure 22) increased by approximately 69,700 jobs between 2021 and 2025, equivalent to an average net increase of approximately 17,400 jobs per year over the period.



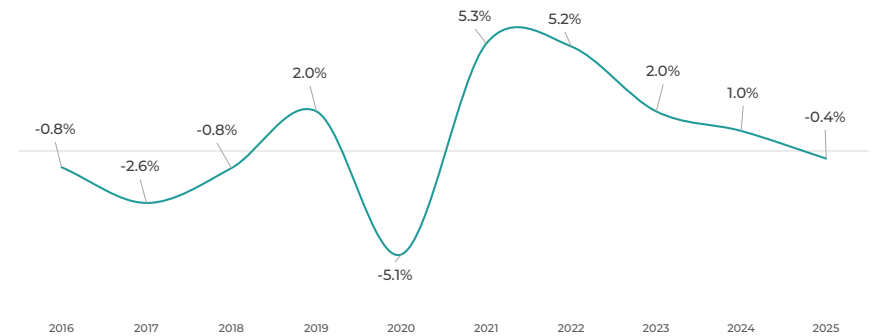
Figure 22 – Total Non-Farm Payroll Employment (in thousands, 2015–2025)



Source: Puerto Rico Department of Labor and Human Resources

Growth in payroll employment has also moderated in recent years (see Figure 23). Following strong gains in 2021 and 2022, annual job creation slowed steadily. By 2025, payroll employment declined slightly on a year-over-year basis, representing the first annual contraction since 2020.

Figure 23 – Percentage Change in Non-Farm Employment (YoY, 2016–2025)



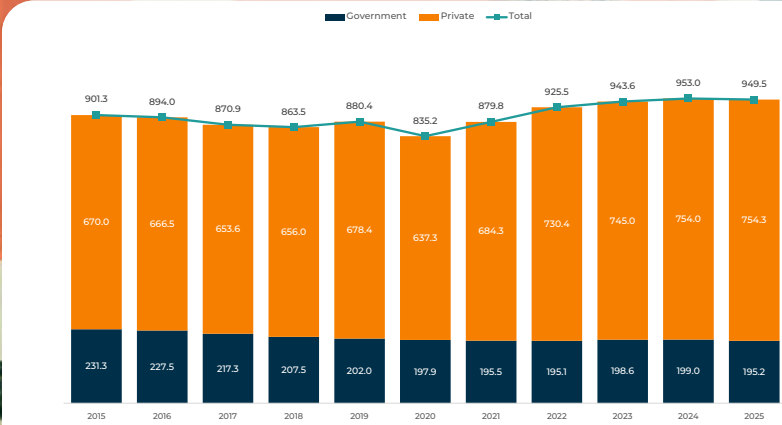
Source: Puerto Rico Department of Labor and Human Resources

Understanding the pace of employment growth, however, is only part of the story. It is equally important to identify where that growth occurred, and which sectors have been responsible for driving labor demand in recent years.



Figure 24 compares payroll employment in the private and government sectors. Over the last decade, employment growth was concentrated almost entirely within the private sector. Private employment increased by approximately 84,000 jobs between 2015 and 2025 (close to 13% growth), while government employment declined by approximately 36,000 positions during the same period. The increase in private sector employment coincided with a period of stronger economic activity, supported (as stated before) in part by the disbursement of federal recovery and reconstruction funds. The decline in government employment reflects a combination of workforce reductions, retirement programs, and fiscal measures implemented during much of the period.

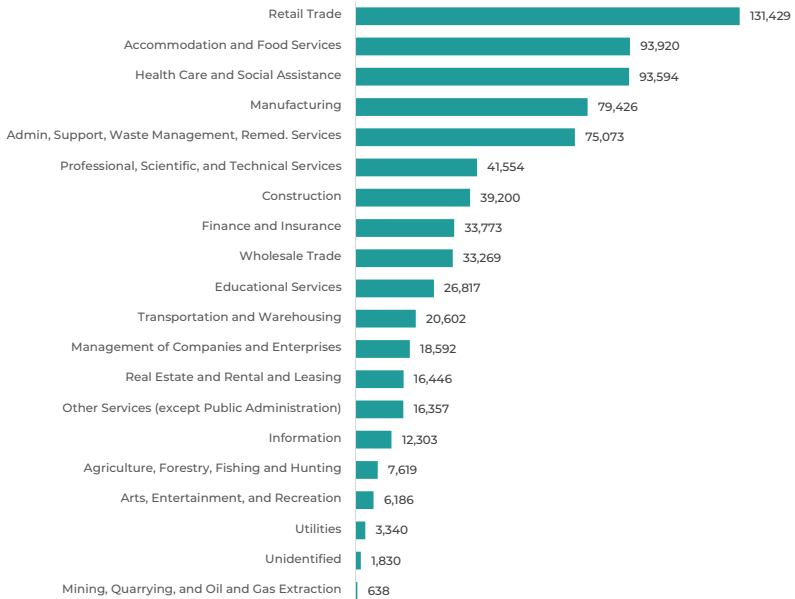
Figure 24 – Total Non-Farm Payroll Employment by Sector (in thousands, 2015–2025)



Source: Bureau of Labor Statistics

At a more granular level, Figure 25 provides a snapshot of private sector employment by industry. As shown, employment remains heavily concentrated in sectors associated with services, particularly Retail Trade and Accommodation and Food Services. Together, these industries accounted for approximately 225,000 jobs in 2025, representing roughly 30% of all private sector employment. This concentration is particularly relevant for minimum wage analysis because these industries account for a substantial share of the workers most likely to be directly affected by changes in the wage floor.

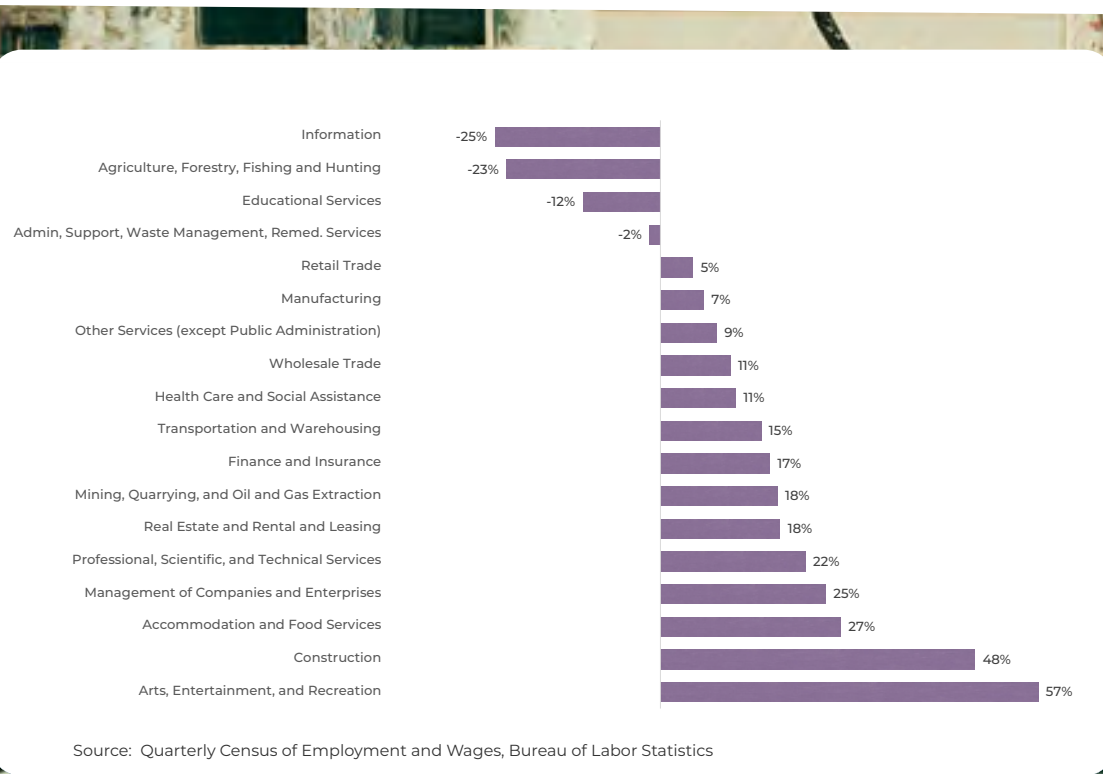
Figure 25 – Total Private Employment by Industry (2025-Q3)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

The distribution of employment growth across industries further illustrates the breadth of the recent expansion (see Figure 26). Between 2019 and 2025, fourteen of 18 major industries experienced employment gains. Some of the strongest increases occurred in Arts, Entertainment and Recreation, Construction, Accommodation and Food Services, and several professional service industries.

Figure 26 – Percentage Change in Employment by Industry (from 2019–Q1 to 2025–Q3)



The broad distribution of employment gains shows that the post-pandemic recovery was not confined to a small number of sectors but was instead reflected across much of Puerto Rico's economy. While payroll employment provides a measure of employer demand for labor, it does not capture all forms of economic activity. Changes in self-employment give an additional perspective on how workers have responded to evolving labor market conditions.

Figure 27 – Self-Employment (in thousands, 2015–2025)

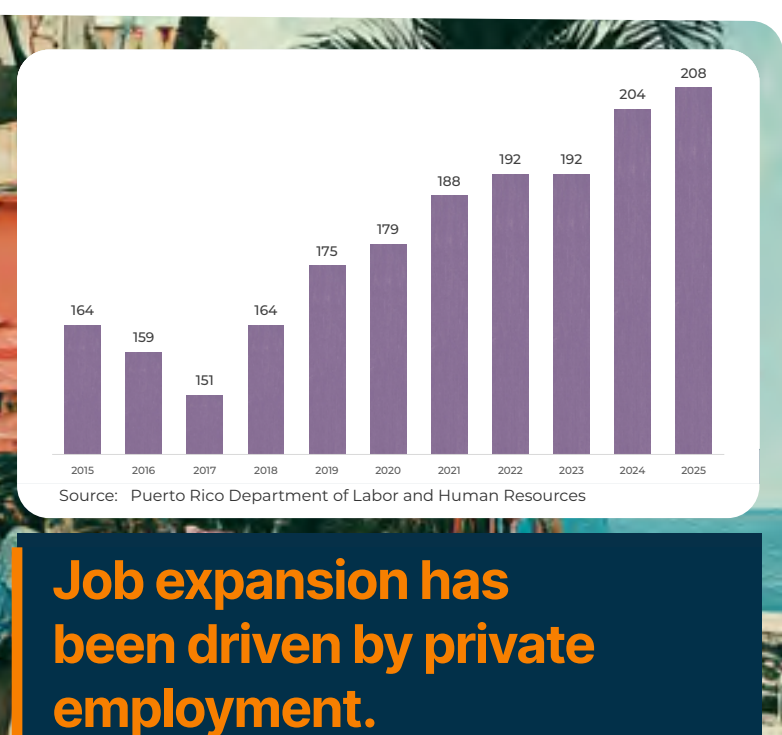
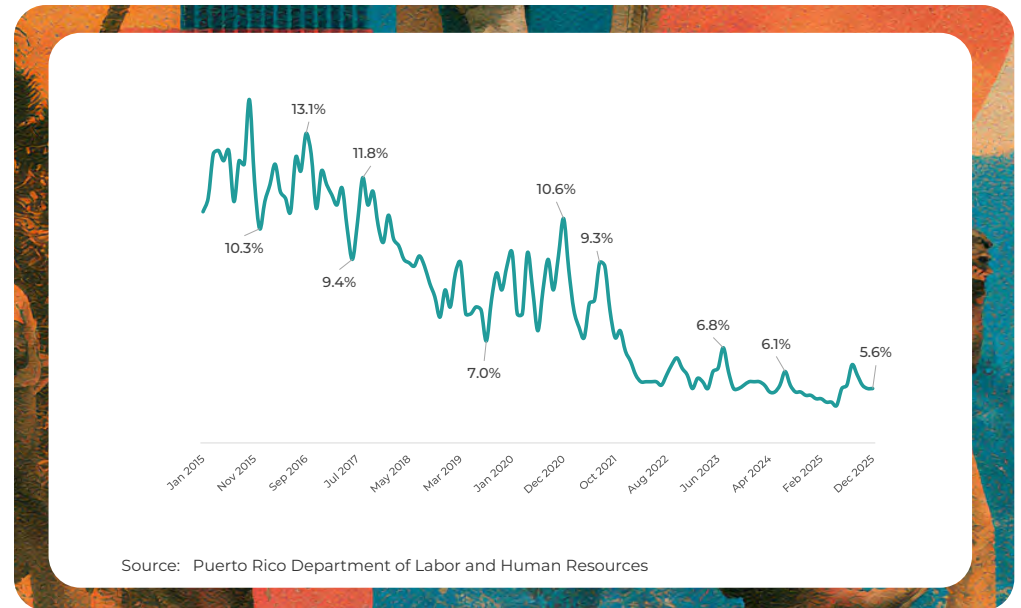


Figure 28 – Unemployment Rate (2015–2025)



As shown in Figure 27, self-employment increased overall during the period, rising from approximately 164,000 workers in 2018 to more than 208,000 by 2025. Although growth was not uniform throughout the period, it is clear that self-employment has become a more prominent component of Puerto Rico's labor market. This pattern may reflect a combination of factors, including limited access to traditional wage employment, the search for alternative work opportunities, entrepreneurial activity and the growth of more flexible or independent forms of work.

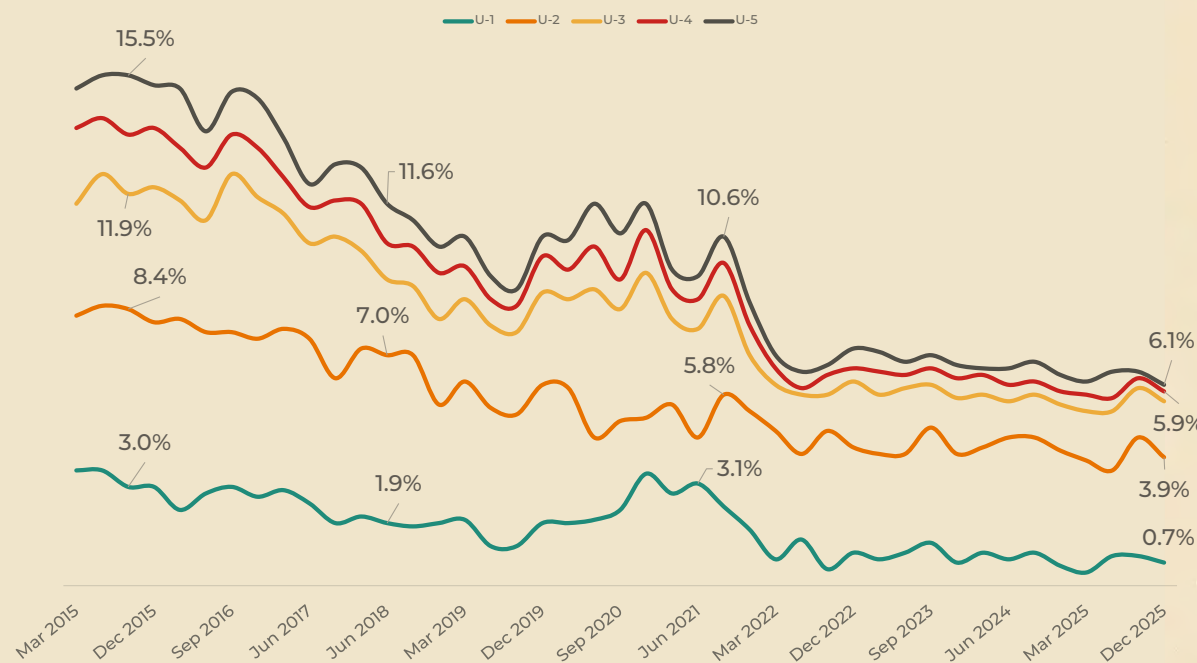
To complete the picture, one can examine unemployment and broader measures of labor underutilization, which assess the extent to which Puerto Rico's available labor supply has been absorbed by labor demand. Figure 28 presents the trajectory of Puerto Rico's unemployment rate over the past decade, highlighting a sustained reduction that became particularly pronounced after 2020. This decline reflects stronger labor market conditions and expanded employment opportunities. A closer examination of recent years shows that the unemployment rate continued to fall through 2022 before stabilizing at historically low levels. Together, these developments point to a labor market that strengthened considerably following the pandemic period, although the pace of improvement has moderated in recent years.

Broader measures of labor underutilization tell a similar story. Figure 29 displays alternative measures of labor underutilization, from U1 through U5, which move from narrower to broader definitions of labor market weakness. Labor Utilization is classified as:

- **U1** – measures persons unemployed for 15 weeks or longer as a share of the labor force,
- **U2** – includes job losers and individuals who have completed temporary jobs,
- **U3** – corresponds to the official unemployment rate,
- **U4** – adds discouraged workers to the official unemployed and,
- **U5** – adds other (marginally) workers, meaning individuals who are not currently in the labor force but have shown some recent relation to the labor market.

These metrics help distinguish between narrow unemployment and wider forms of underutilization that include discouraged workers and others with a weaker but still meaningful connection to the labor market. As shown in the graph, all measures of labor underutilization declined after 2021 and then stabilized, reflecting a broad improvement in labor market conditions following the pandemic period.

Figure 29 – Alternative Measures of Labor Underutilization (2015–2025)



Source: Puerto Rico Department of Labor and Human Resources



A final useful indicator to gauge labor demand is the employment-to-population ratio, which measures the share of the population (age 16 years and over) that is employed. Figure 30 shows that Puerto Rico’s employment-to-population ratio increased from 37% in 2019 to 42% in 2025, representing a substantial improvement in the ability of the labor market to absorb available workers.

Figure 30 – Employment to Population Ratio (2019–2025)

Fiscal Year	Employment to Population Ratio
2019	37%
2021	37%
2020	38%
2022	41%
2023	41%
2024	42%
2025	42%

Source: Puerto Rico Planning Board



Despite this progress, Puerto Rico continues to lag the United States, where the employment-to-population ratio reached approximately 59.8% percent in 2025. The remaining gap potentially reflects broader structural factors discussed earlier in the report.

Nonetheless, the indicators presented in this section portray a labor market that expanded considerably following the pandemic period, even as the pace of growth moderated in more recent years. Employment increased across most industries, unemployment and broader measures of labor underutilization declined, and the labor market absorbed a larger share of the available workforce than it did a decade earlier.

These findings provide meaningful context for evaluating minimum wage policy since the scheduled wage increases implemented under Act 47-2021 occurred during a period characterized by employment growth, declining unemployment, and improved labor market absorption. While these measures do not establish the effects of minimum wage policy, they provide information regarding the labor market conditions that prevailed during the implementation period and help inform the broader evaluation of future wage adjustments.

Productivity and Output per Worker

Before turning to wages and minimum wage exposure, it is useful to examine labor productivity, which influences the capacity of firms and industries to sustain labor costs over time. Productivity occupies an important place in minimum wage discussions because it reflects the amount of output generated by each worker. Traditionally, higher productivity has been viewed as a factor that supports wage growth by increasing the value of production associated with each worker. More recently, however, the literature has also examined the possibility that wage increases may influence productivity through changes in worker behavior, including lower turnover and improved employee retention.⁴ As a result, the relationship between wages and productivity is generally viewed as potentially operating in both directions.

The Puerto Rico Planning Board publishes a productivity measure defined as real gross domestic product divided by total employment. Figure 31 shows that measured productivity declined steadily between 2016 and 2022, falling from approximately \$107,600 to \$89,300 per worker. This represents a decline of roughly 17 percent over the period and depicts that Puerto Rico entered a post-pandemic recovery after several years of weakening productivity performance.

⁴ Arindrajit Dube, *Impacts of Minimum Wages: Review of the International Evidence*, report prepared for the UK Low Pay Commission, 2019; John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?*, Center for Economic and Policy Research, 2013; Barry T. Hirsch, Bruce E. Kaufman, and Tetyana Zelenska, "Minimum Wage Channels of Adjustment," *Industrial Relations: A Journal of Economy and Society* 54, no. 2 (2015): 199–239.

After 2022, however, the downward trend stabilized. Measured productivity increased modestly in both 2023 and 2024, reaching approximately \$90,500 per worker by the end of the period. While the increase was relatively small, it marked a shift from the sustained declines observed during the preceding years. Productivity as measured by real GDP per employee has remained stagnant since 2022. This is the same period in which the PR general minimum wage increased from \$7.25 per hour to \$10.50.

Figure 31 – Productivity Gauge per Fiscal Year



Source: Puerto Rico Planning Board

Labor Market Outcomes

This section presents a broader perspective on how labor market gains have translated into worker compensation and where minimum wage policy fits within Puerto Rico’s overall wage structure. Before examining wages directly, Figure 32 places minimum wage employment alongside multiple labor

market indicators. While some of these metrics were discussed individually in previous sections, presenting them together helps establish the broader labor market environment within which wage outcomes should be interpreted.

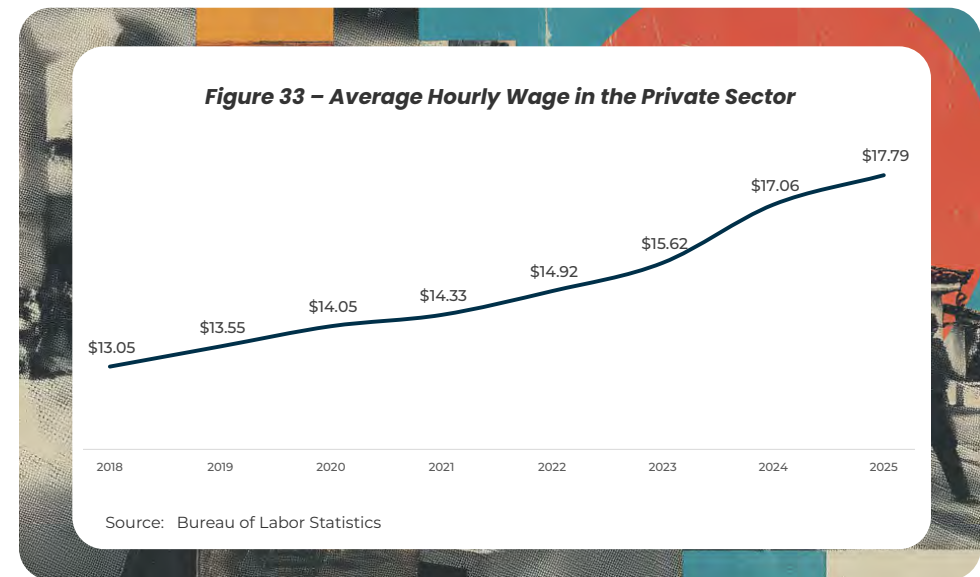
Figure 32 – Labor Market Summary



Viewed collectively, these statistics portray a labor market that remained stronger in 2025 than it was before the pandemic, although the pace of improvement moderated in recent years. Private employment increased from 678,400 workers in 2019 to more than 750,000 in 2025, labor force participation rose from 40.9 percent to 44.5 percent, average annual private sector pay increased from \$27,246 to \$34,493, and the number of private establishments expanded from 45,168 to 51,263. During the same period, the number of workers earning the prevailing minimum wage declined from approximately 375,800 to 256,500.

The decline in minimum wage employment therefore occurred within a labor market characterized by greater employment, higher labor force participation, rising average earnings, and a larger business base than existed prior to the pandemic. At the same time, several measures point to a slowdown in labor market expansion after 2023, alongside a modest increase in minimum wage employment relative to the lows observed that year. These developments portray a scenario in which rapid post-pandemic recovery has begun to lose momentum, even as labor market conditions remained comparatively favorable.

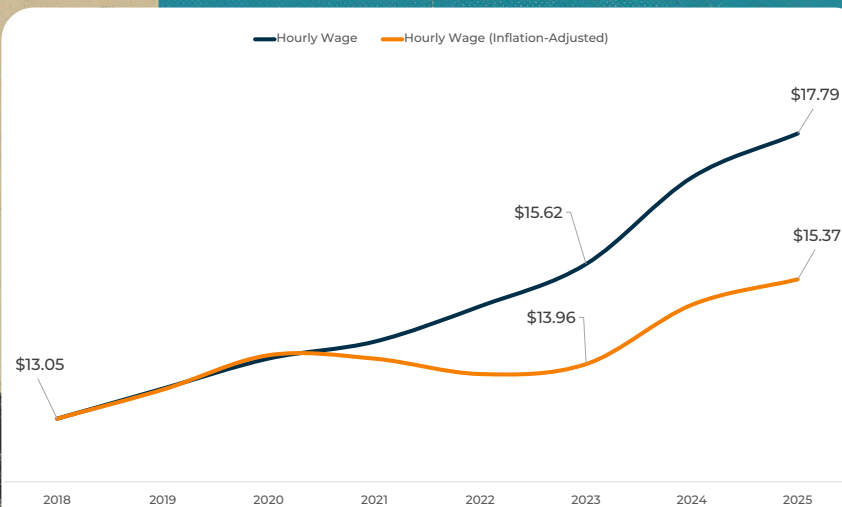
With this context established, let's examine the evolution of wages. As seen in Figure 33, average hourly earnings increased from \$13.05 in 2018 to \$17.79 in 2025 (in the private sector), representing growth of approximately 36 percent over the period. Wage growth was relatively steady through 2023 before accelerating in 2024, when average hourly wages increased by 9.2 percent in a single year.



The acceleration observed in 2024 likely reflects a combination of factors, including inflation related labor market adjustments, sector specific wage pressures, and the implementation of the 2024 minimum wage increase.

Nominal wage growth provides only part of the picture. Because the period was also characterized by elevated inflation, it is useful to evaluate whether wage growth translated into increased purchasing power. Figure 34 presents inflation adjusted hourly wages for private sector workers. After accounting for inflation, average hourly earnings increased from approximately \$13.05 in 2018 to \$15.37 in 2025, representing growth of roughly 18 percent. The results are consistent with wage growth outpacing price increases over the period and an associated improvement in purchasing power despite recent inflationary pressures.

Figure 34 – Average Hourly Wage in the Private Sector (inflation adjusted)



Source: Bureau of Labor Statistics & PR Dept. of Labor & Human Resources

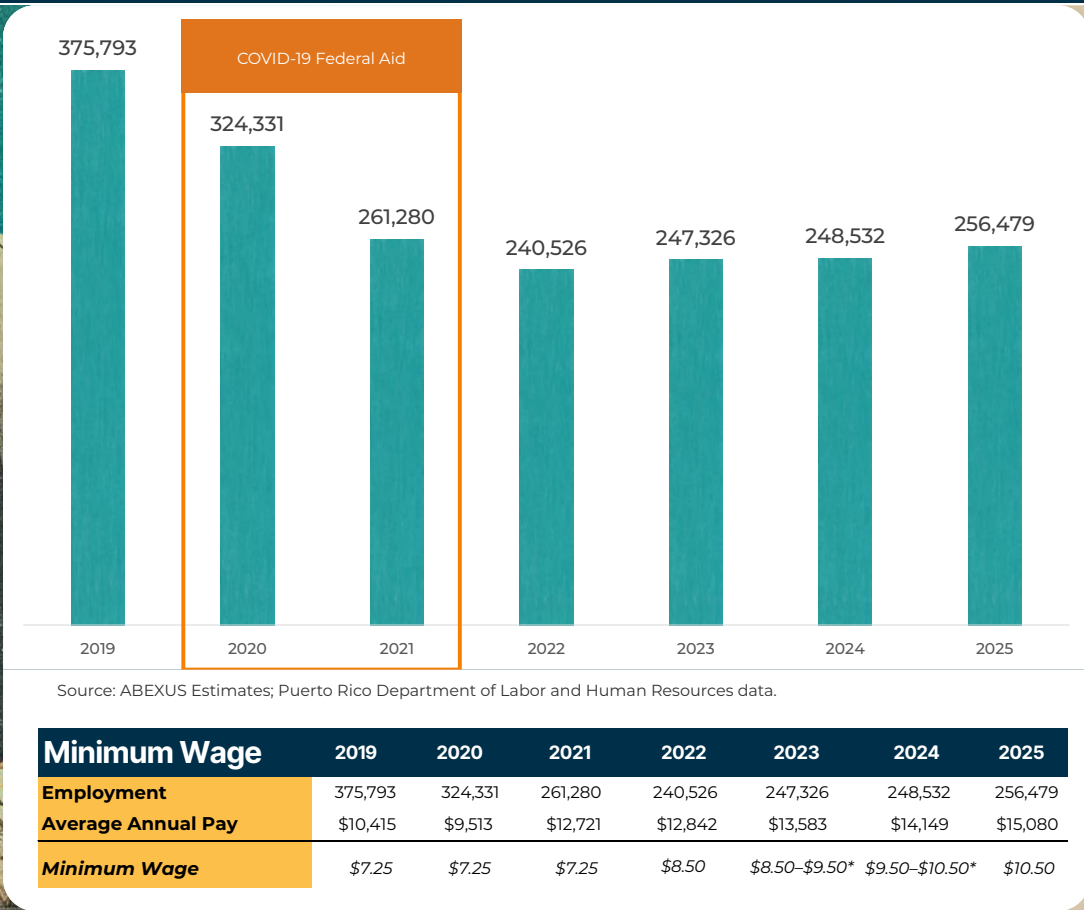
Note: Inflation adjusted wages are expressed in constant 2018 dollars.

Minimum wage exposure and wage variation by worker, industry, and municipality

While the wage distribution provides one perspective on the relevance of minimum wage policy, administrative records offer a complementary measure by identifying workers earning the prevailing statutory minimum wage. The most recent administrative estimates show that approximately 256,500 workers earned the prevailing minimum wage in 2025 (see Figure 35), representing roughly 34% of private sector employment. The number of workers earning the minimum wage has remained relatively stable since 2023, following the substantial declines observed during the earlier post-pandemic period.

Figure 35 also provides insight into annual earnings among workers making the minimum wage. In 2025, minimum wage workers earned average annual pay of \$15,080. This annual amount reflects actual work patterns among workers paid at the wage floor, including differences in weekly hours and weeks worked during the year. As a result, annual earnings among minimum wage workers may differ substantially from annualized wage floor calculations based on full-time, year-round employment.

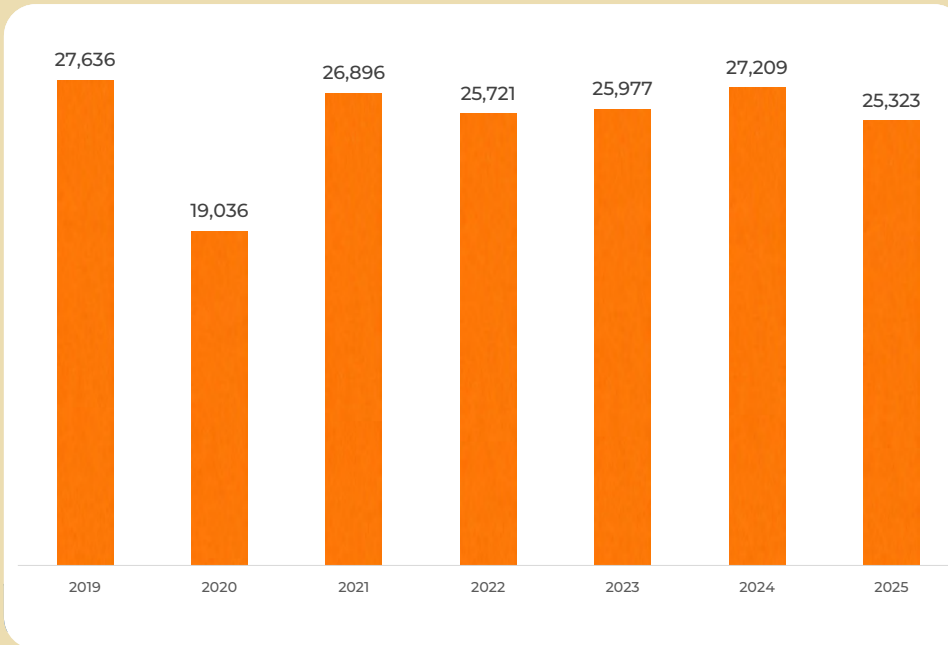
Figure 35 – Minimum Wage Employment



Multiple jobholding provides an additional perspective on labor market outcomes among workers earning the minimum wage. In 2025 (Figure 36), approximately 25,300 workers earned the minimum wage in at least one job while simultaneously working more than one job during two or more quarters of the

year. This stability suggests that the scheduled increases under Act 47-2021 did not coincide with a clear upward or downward break in multiple jobholding among minimum wage workers.

Figure 36 – Minimum Wage Workers with Multiple Jobs



Source: ABEXUS Estimates; Puerto Rico Department of Labor and Human Resources data.

It is also important to examine minimum wage exposure as it is not distributed evenly within Puerto Rico's labor market. Administrative estimates reveal significant variation across sectors and municipalities. As seen in Figure 37, several industries account for a disproportionate share of workers earning the prevailing minimum wage, while the geographic distribution of minimum wage employment shows higher concentrations in multiple municipalities located in the central and western regions of Puerto Rico (see Figure 38 & Figure 39). Many of these municipalities & their businesses also exhibit broader economic challenges that must be considered.

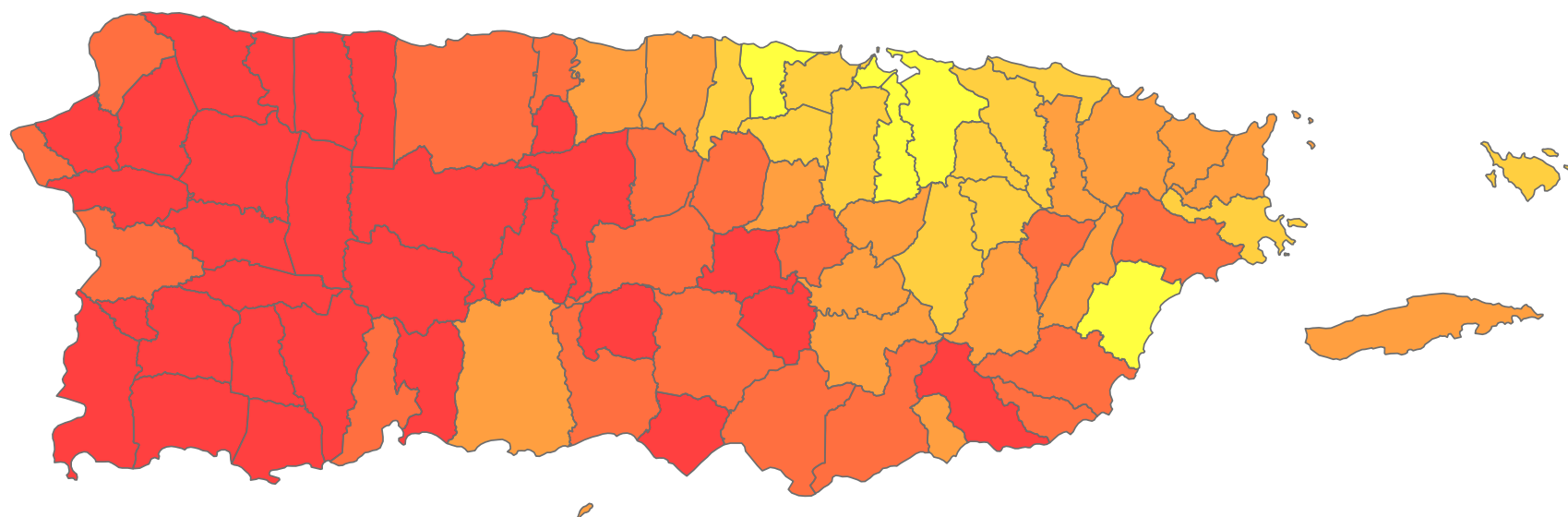


Figure 37 – Minimum Wage Jobs by Industry (2025)

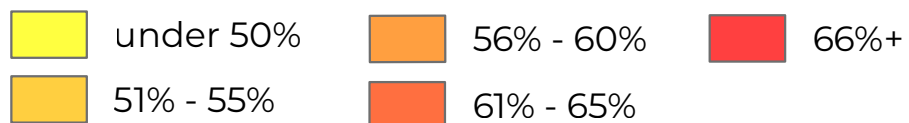
NAICS	Industry Description	Minimum Wage Jobs	Private Employment	% of Jobs at Minimum Wage	% of Minimum Wage
72	Accommodation and Food Services	51,792	92,954	55.7%	20.2%
56	Administrative and Support and Waste Management	39,145	75,165	52.1%	15.3%
61	Educational Services	12,634	25,735	49.1%	4.9%
44-45	Retail	55,357	132,001	41.9%	21.6%
81	Other Services (except Public Administration)	6,759	16,599	40.7%	2.6%
71	Arts, Entertainment, and Recreation	2,382	6,155	38.7%	0.9%
62	Health Care and Social Assistance	26,762	92,962	28.8%	10.4%
48-49	Transportation & Warehousing	5,896	20,755	28.4%	2.3%
23	Construction	11,008	38,889	28.3%	4.3%
53	Real Estate and Rental and Leasing	4,162	16,434	25.3%	1.6%
21	Mining, Quarrying, and Oil and Gas Extraction	142	637	22.3%	0.1%
55	Management of Companies and Enterprises	3,955	18,369	21.5%	1.5%
31-33	Manufacturing	16,682	79,947	20.9%	6.5%
51	Information	2,589	12,573	20.6%	1.0%
54	Professional, Scientific, and Technical Services	8,092	42,171	19.2%	3.2%
42	Wholesale Trade	6,135	33,238	18.5%	2.4%
22	Utilities	279	3,327	8.4%	0.1%
52	Finance and Insurance	2,627	33,909	7.7%	1.0%
99	Unclassified	81	1,062	7.6%	0.0%
Total		256,479	742,882	34.5%	100.0%

ABEXUS Estimates, US BLS QCEW. Excludes employment in NAICS 11–Farming, as they are subject to a different minimum wage.

Figure 38 – Establishments with Minimum Wage Employees by Municipality (2025)



As Percent of Private Establishments

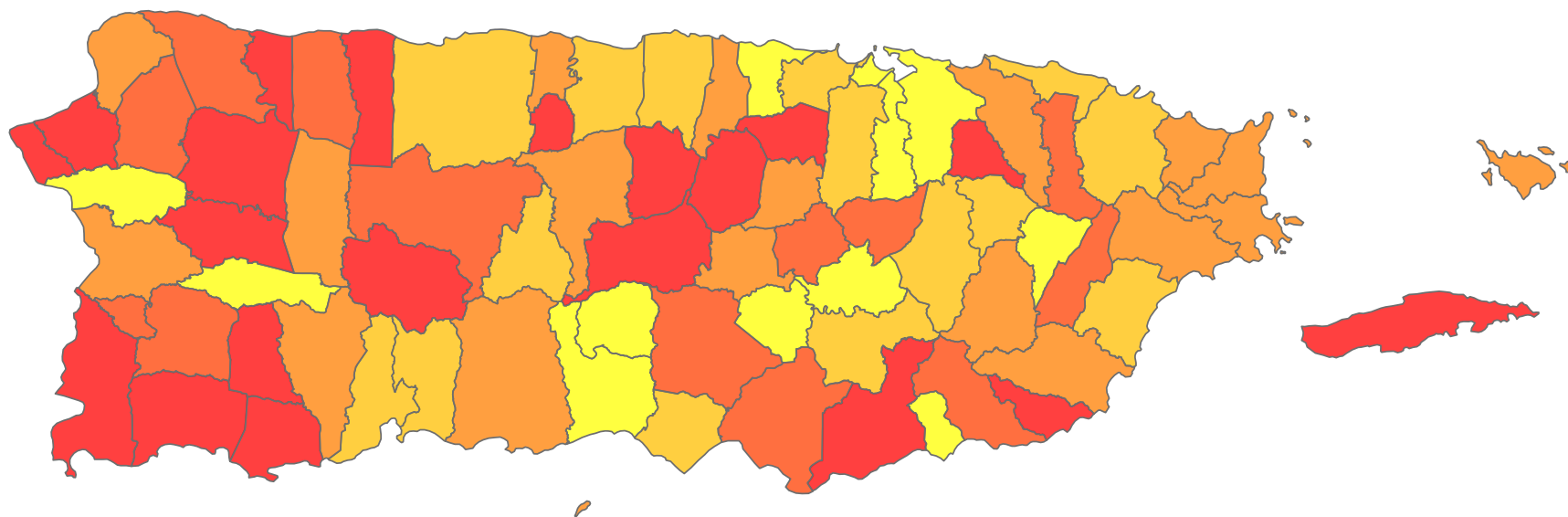


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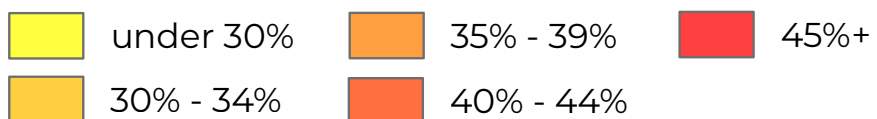
Earthstar Geographics, ABEXUS Analytics, PR Department
of Labor & Human Resources

Note: For an establishment to be considered, 5% or more of its employment must consist of minimum wages.

Figure 39 – Minimum Wage Employment as a Percentage of Private Employment by Municipality (2025)



As Percent of Private Employment



Source:

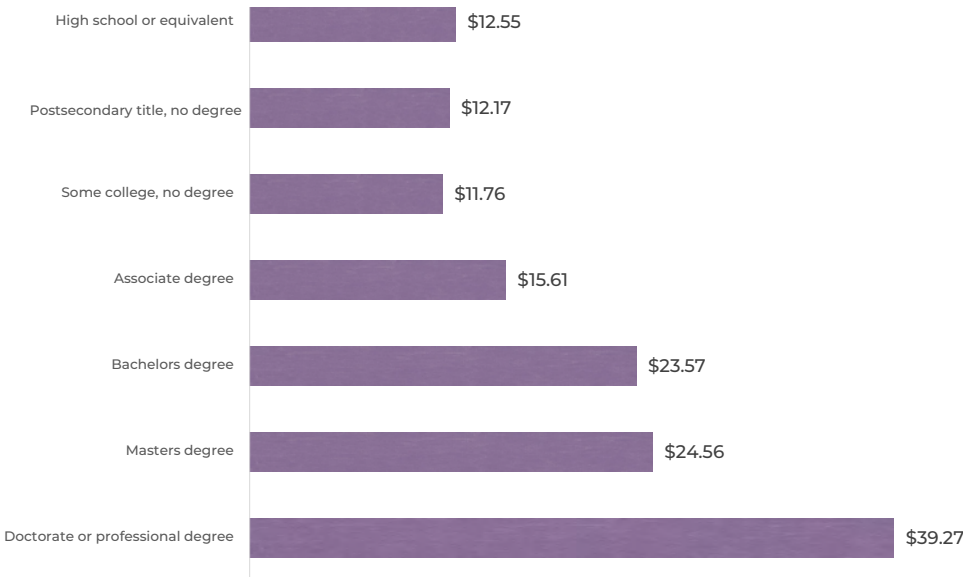
Earthstar Geographics, ABEXUS Analytics, PR Department
of Labor & Human Resources

Additional insight into Puerto Rico's wage structure can be obtained by examining how earnings vary across worker characteristics and sectors. Figure 40 presents average hourly wages by educational attainment in 2024.

As shown, wage levels are relatively similar among workers without a university degree, including those with only a high school diploma and those with some college education but no degree. More substantial differences emerge among workers with postsecondary credentials. Holders of an associate degree earned an average hourly wage of \$15.61, representing a 24 percent premium relative to workers with a high school diploma or equivalent. The returns to education become even more pronounced among workers holding a bachelor's degree or higher. This group earned an average hourly wage of \$23.57, equivalent to an 87.8 percent premium over workers with a high school diploma.

Industry level wage data reveal similarly large differences. Figure 41 presents average weekly wages by industry during the third quarter of 2025. Multiple sectors, including Manufacturing, Information, Professional Services, Finance and Insurance, and Management of Companies and Enterprises, reported wages substantially above the average for the overall economy. By contrast, various of the largest employers, including Accommodation and Food Services, Retail Trade, and Administrative and Support Services, continued to report lower average compensation levels.

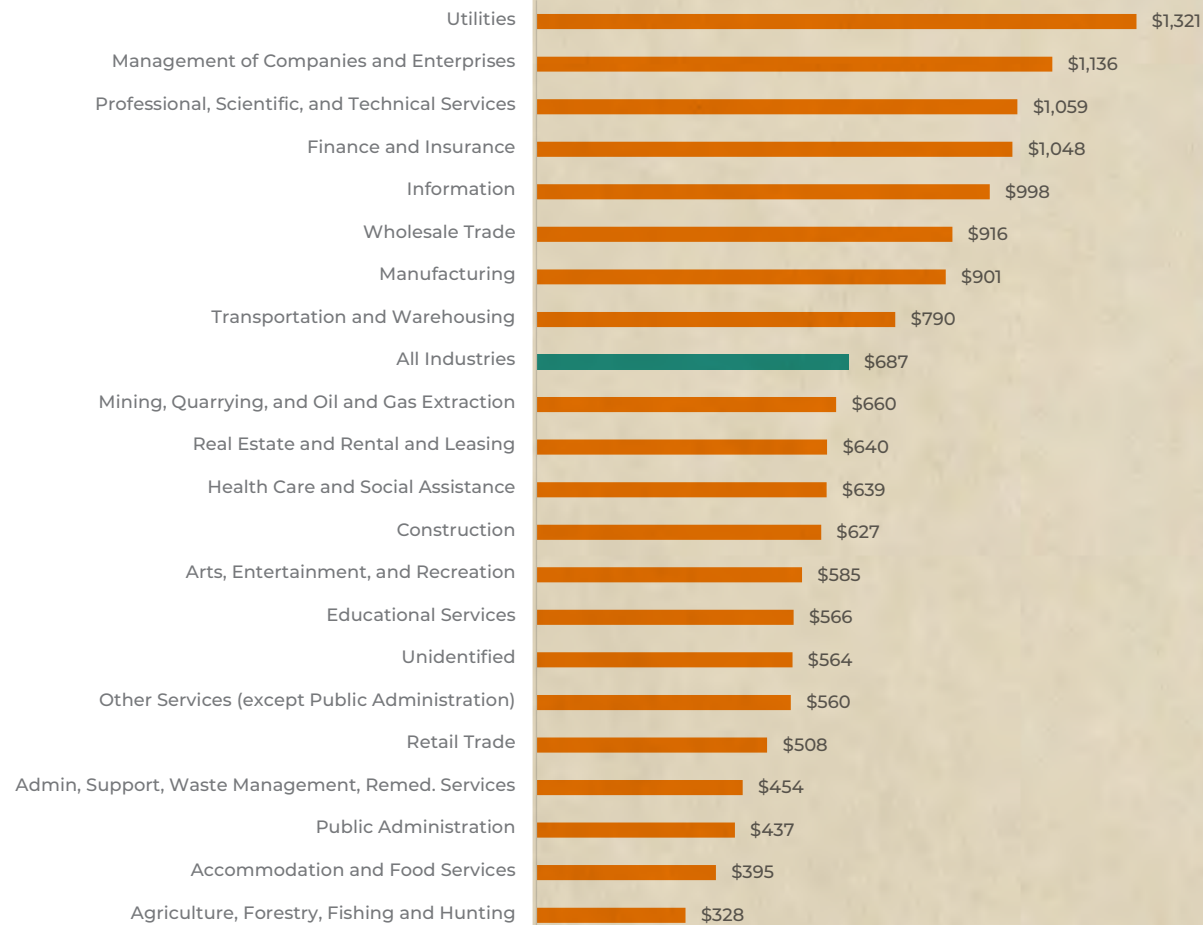
Figure 40 – Average Hourly Wage by Educational Attainment



Source: Puerto Rico Department of Labor and Human Resources data.

These differences underscore the heterogeneous nature of Puerto Rico's labor market. Several of the industries employing the largest numbers of workers remain concentrated in relatively lower wage activities, while some of the highest paying sectors account for a smaller share of total employment. As a result, exposure to minimum wage policy varies considerably across industries, reflecting underlying differences in wage structures, business models, and workforce composition.

Figure 41 – Average Weekly Wage by Industry (2025-Q3)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

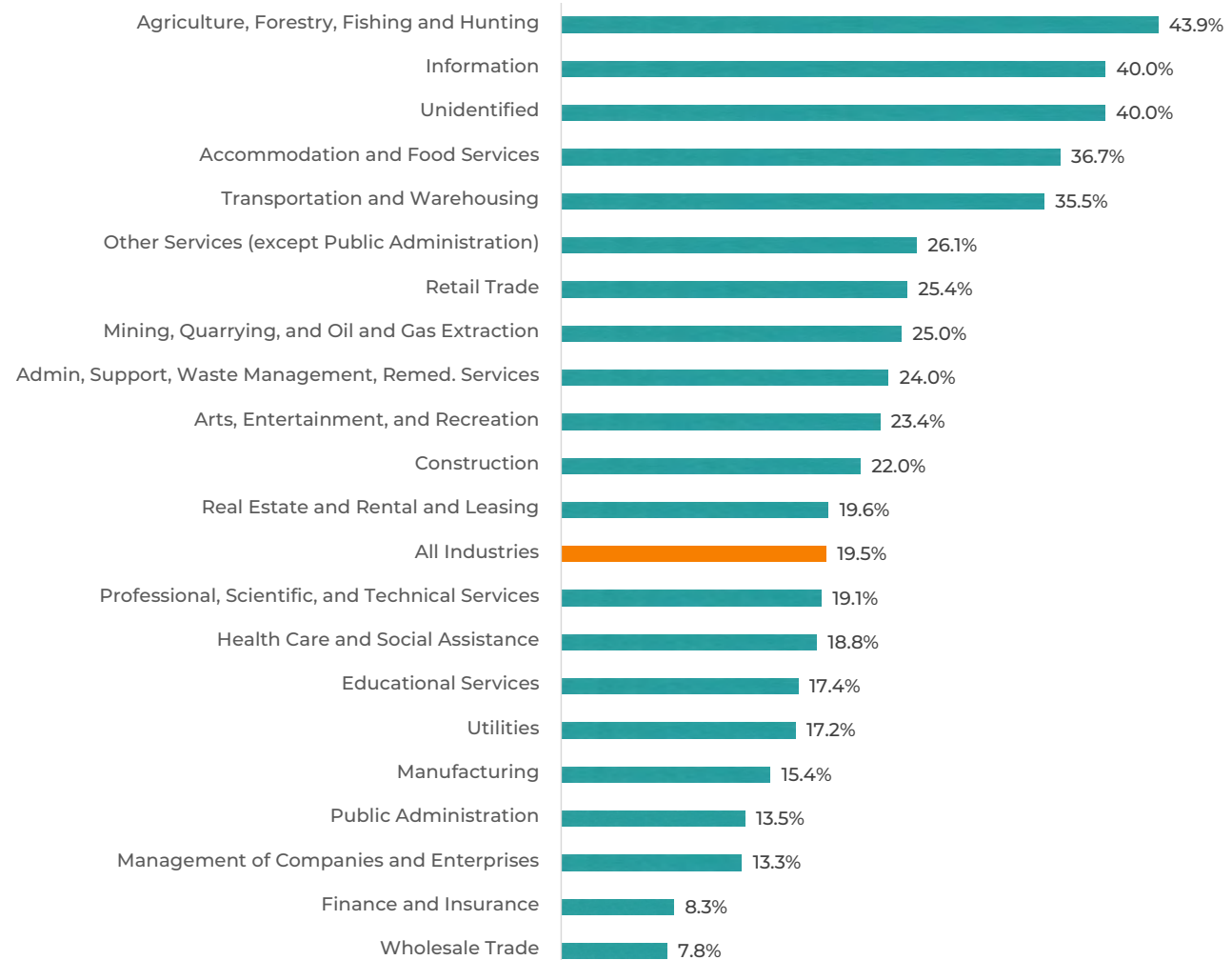


Examining wage growth across industries provides additional perspective on the discussion above. Figure 42 shows that many lower wage industries experienced some of the strongest wage gains between 2019 and 2025, including Agriculture, Accommodation and Food Services, Transportation and Warehousing, and Retail Trade. While the factors contributing to wage growth vary across industries, the results underscore that wage adjustments were not confined to traditionally higher paying sectors.

While Figure 42 illustrates wage changes over the broader 2019 to 2025 range, Figure 43 focuses on the period following the July 2024 minimum wage increase. As seen, most industries recorded wage gains, although the magnitude of growth varied considerably across sectors. Retail Trade and Accommodation and Food Services, two industries with meaningful minimum wage exposure, recorded average weekly wage growth of approximately 5 to 6 percent. These data points illustrate the continued diversity of wage outcomes across Puerto Rico's industrial structure.

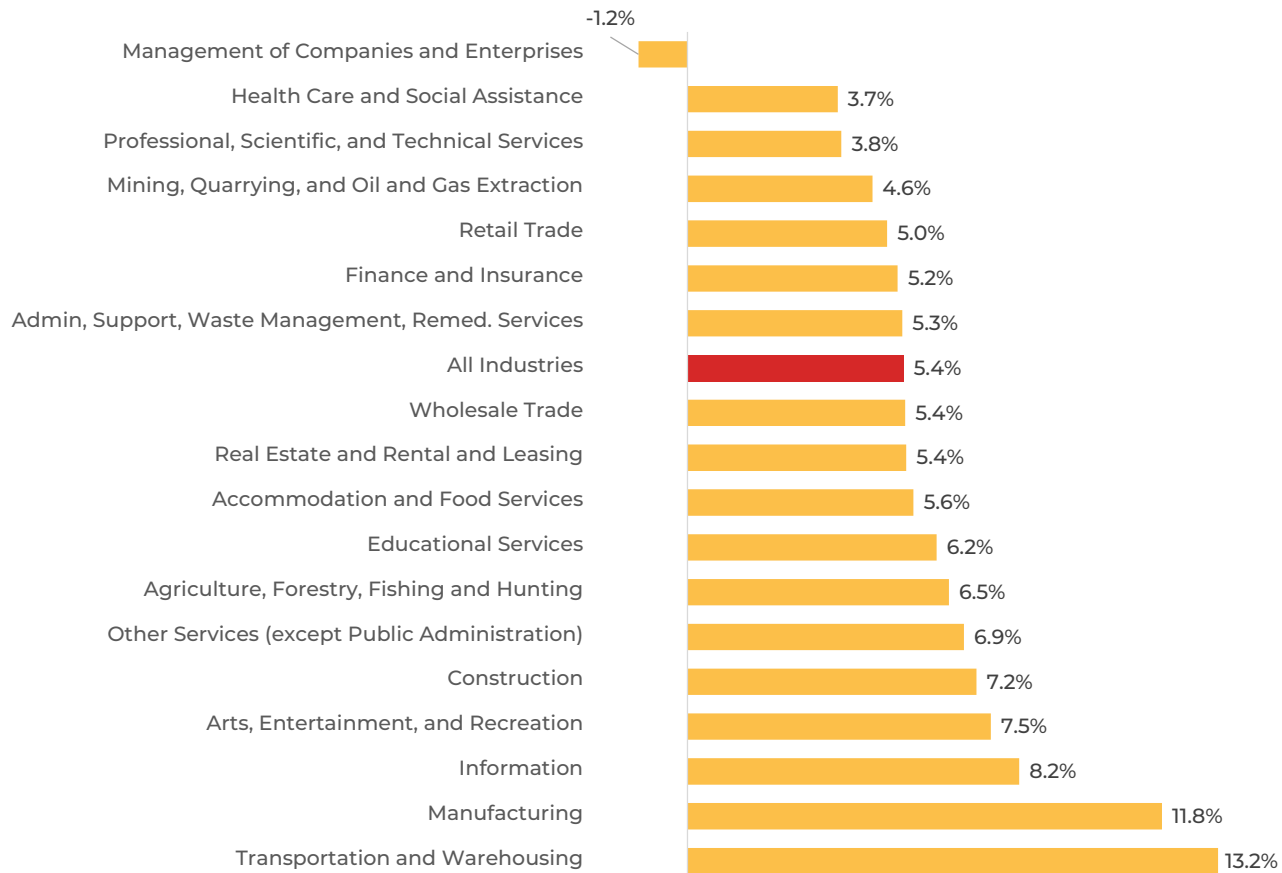


Figure 42 – Percentage Change in Average Weekly Wage by Industry (2019–Q1 to 2025–Q3)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

Figure 43 – Percentage Change in Average Weekly Wage by Industry (2024–Q2 to 2025–Q3)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

Wage and Income Distribution Trends

While wages provide important information about labor market performance, they do not fully describe how economic gains are distributed across individuals, municipalities, or factors of production. Understanding distributional outcomes is key because wage growth alone does not reveal whether improvements in labor market conditions are broadly shared, concentrated in specific locations, or distributed unevenly between labor and capital.

While wage growth may improve labor market outcomes, the distribution of income provides additional perspective on how those gains are ultimately reflected in individual economic circumstances. Figure 44 shows that the median income for individuals stood at \$17,849 in 2024, increasing by \$4,666 since 2018 or 35 percent. However, this increase did not occur continuously. Median incomes rose at an average rate of 2.8% from 2018 to 2021, then significantly accelerated in the following years, surging by a rate of 6.2% from 2022 to 2024.⁵

⁵ Half of the increase from 2018 to 2024 took place between 2021 and 2023, when median income surge by \$2,503.

Figure 44 – Median Income in the Past 12 Months

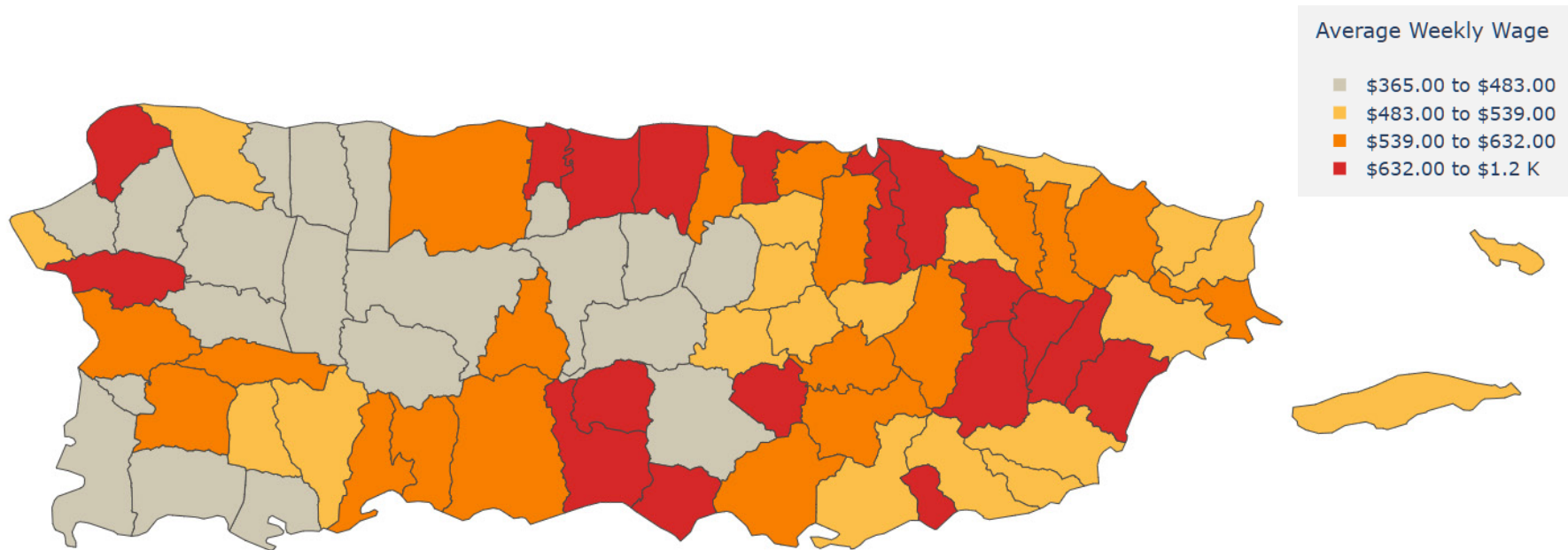


Source: American Community Survey 1-Year Estimates

Also, wage levels vary considerably across Puerto Rico's municipalities, reflecting differences in industrial composition, employment structure, and local economic activity. Figure 45 displays these geographic differences using average weekly wages during the third quarter of 2025.

Higher average wages tend to be concentrated in municipalities near the San Juan metropolitan area, as well as in selected municipalities in the eastern and southern (including Peñuelas & Santa Isabel) regions of Puerto Rico. By contrast, many municipalities in the central region of the Island continued to exhibit comparatively lower wage levels.

Figure 45 – Average Weekly Wage by Municipality (2025-Q3)

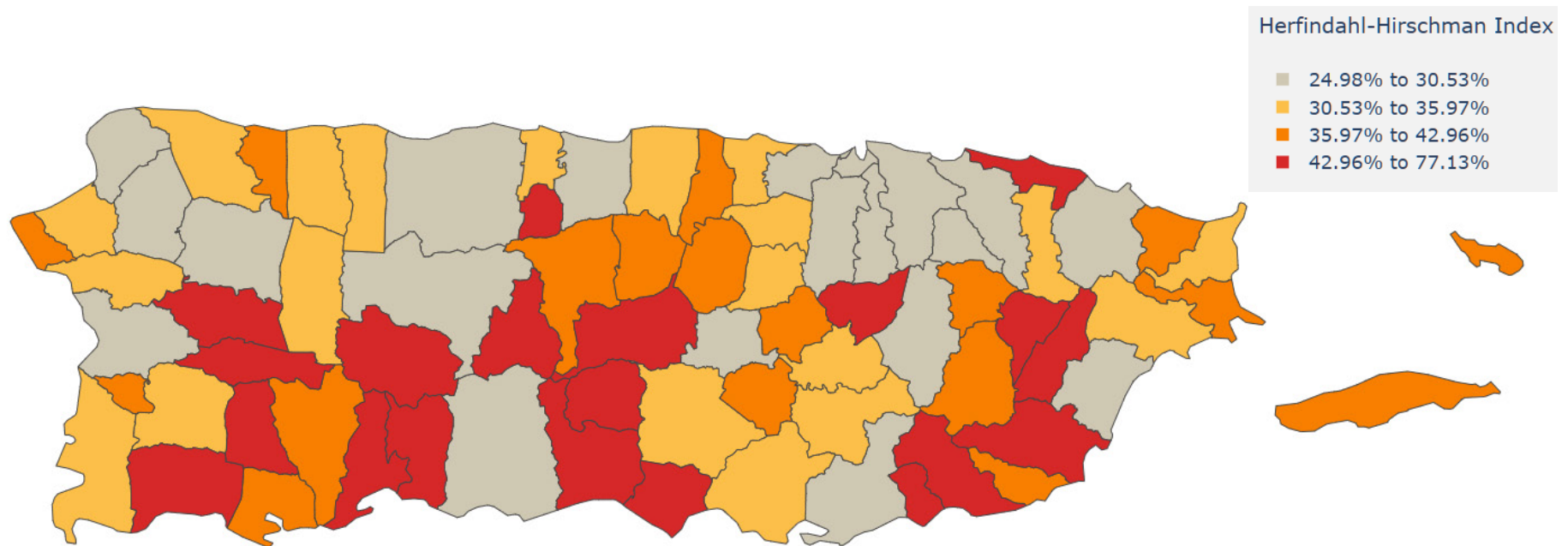


Source: Quarterly Census of Employment and Wages, BLS

High average wage levels do not necessarily imply a broadly high wage economy. In some cases, elevated averages may reflect a diversified industrial base with strong compensation across multiple sectors, while in others they may be driven by a relatively small number of high paying industries. Assessing this distinction provides additional context for interpreting municipal wage differences.

Differences in municipal wage levels may therefore reflect not only industrial composition, but also the degree of economic concentration. The Herfindahl-Hirschman Index (HHI) offers a useful measure of this characteristic. Figure 46 shows the HHI by municipality calculated for Q3-2025. In this context, higher HHI values indicate that a municipality's economic structure is more concentrated in a smaller number of sectors, whereas lower values are associated with a more diversified profile.

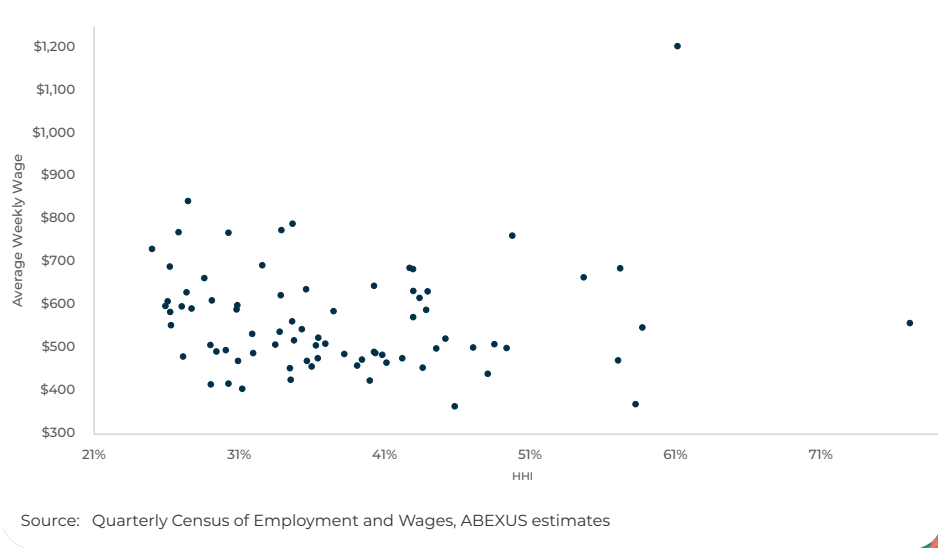
Figure 46 – Herfindahl-Hirschman Index by Municipality (2025-Q3)



Source: ABEXUS Analytics Estimates

Comparing wage levels with concentration patterns reveals an interesting relationship. As illustrated in Figure 47, municipalities with more diversified economic structures generally tend to report higher average wages, while those with greater concentration often exhibit lower wage levels. Although several outliers are present, the overall pattern suggests a negative association between concentration and average wages.

Figure 47 – Relationship between Average Weekly Wage and HHI by Municipality (2025-Q3)



This association should be interpreted with caution. While the observed results are consistent with the possibility that economic concentration may influence wage outcomes in some municipalities, wage levels alone do not fully capture how the income generated within a local economy is distributed.

A more complete assessment requires moving from where wages are higher or lower to examine how total income is allocated between labor and capital. The functional distribution of income provides that broader perspective. It shows how the income generated by the economy is divided between labor and capital. In Puerto Rico's case, the aggregate distribution of income continues to allocate a larger share of net domestic income to capital than to labor. Figure 48 presents employee compensation and proprietors' income as shares of net domestic income. The data show that capital has consistently accounted for a larger share of income than labor throughout the period analyzed.

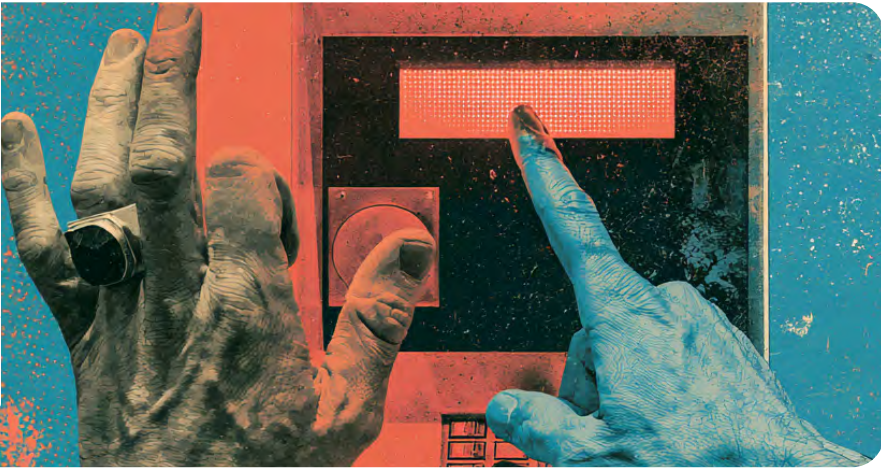
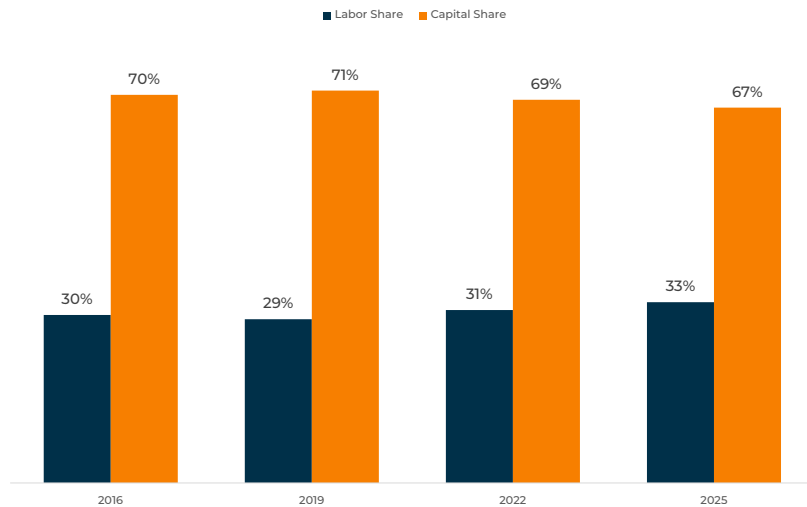


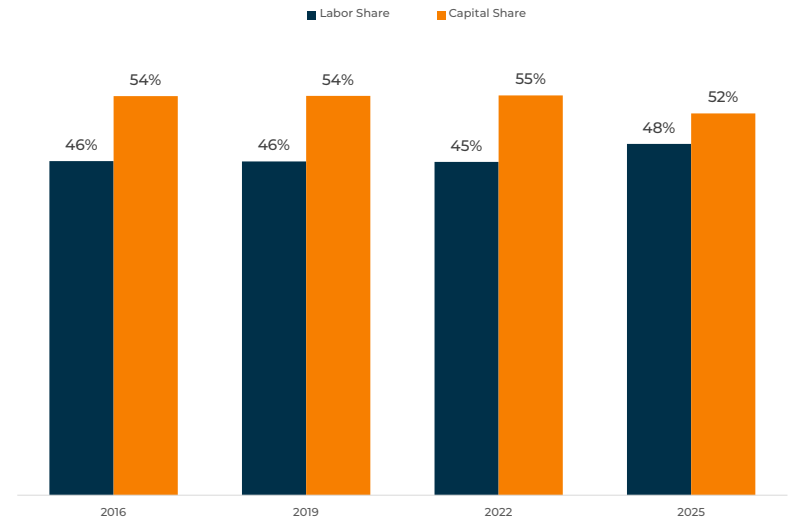
Figure 48 – Functional Distribution of Net Domestic Income



Source: Puerto Rico Planning Board

The aggregate measure, however, reflects structural characteristics of Puerto Rico's economy that warrant additional consideration. The Island's manufacturing sector, particularly foreign pharmaceutical operations, generates substantial income that is recorded as capital income. Transfer pricing practices may also influence the measured distribution of income. To address these considerations, Figure 49 presents an adjusted measure that excludes manufacturing and government activities. Under this alternative scenario, the distribution becomes considerably more balanced. Labor's share increased from 45.6% in 2016 to 47.9% in 2025, while capital's share declined from 54.4% to 52.1%.

Figure 49 – Functional Distribution of Income Excluding Manufacturing and Government



Source: Puerto Rico Planning Board

Although the adjusted series still allocates a slightly larger share of income to capital, the difference between labor and capital is substantially smaller than in the aggregate measure. Both approaches draw a similar conclusion: labor's share increased modestly during the period, although capital continued to receive the larger share of income generated by the economy (particularly when manufacturing activities are included).

The next section therefore examines assistance thresholds and labor participation. The purpose is to move from gross wages to net household resources: how additional earnings interact with nutrition assistance, health coverage, housing support, tax credits, and other programs that affect the financial return to work.

Assistance Thresholds and Labor Participation

The previous sections examined labor supply, employment demand, wage outcomes, and income distribution. However, labor market participation is influenced by more than wages and employment opportunities alone. Public assistance programs also play an important role since they affect household resources and can influence the financial incentives associated with entering employment, increasing hours worked, or accepting jobs with a higher pay scale.

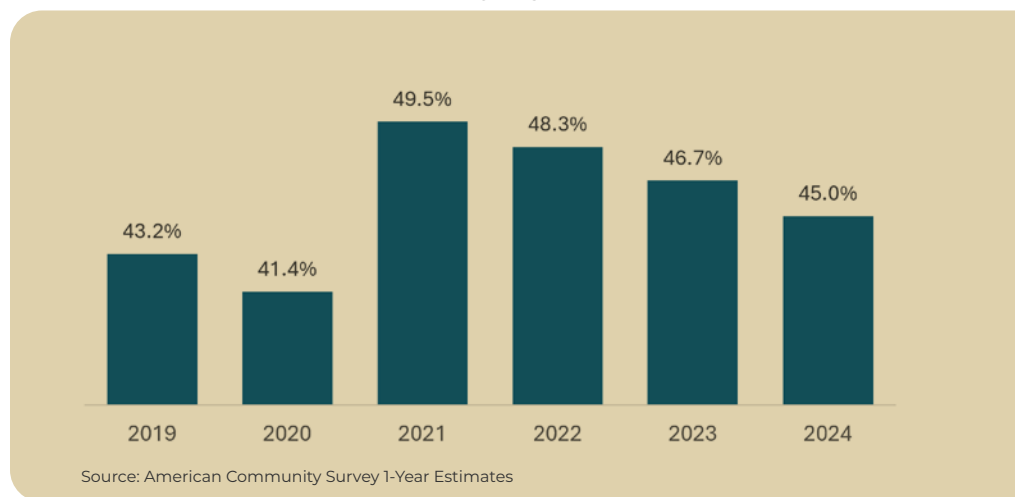
For Puerto Rico, this issue is particularly relevant given the large share of the population that participates in one or more public assistance programs. The principal assistance programs include the Nutritional Assistance Program (NAP), Medicaid–Plan Vital, Temporary Assistance for Needy Families (TANF), and Public Housing. Understanding how these programs interact with labor market outcomes provides important context for the topic at hand.

Recent research has highlighted the role that eligibility thresholds and benefit reduction rules may play in shaping labor market decisions. In particular, the Youth Development Institute (2026) notes that some programs may generate substantial changes in benefit eligibility following relatively small increases in earned income. When benefit reductions occur abruptly, households may face tradeoffs between higher

labor earnings and the loss of program benefits. The extent to which these incentives influence labor market behavior varies across programs and household circumstances, but they represent an important consideration when evaluating labor force participation, labor supply conditions and minimum wage policy.

The widespread use of public assistance programs illustrates their importance within Puerto Rico's broader social and economic landscape. Among these programs, NAP remains one of the most widely utilized forms of assistance. As shown in Figure 50, approximately 45% of Puerto Rico's population received NAP or SNAP benefits during 2024, representing an increase of 1.8 percentage points relative to 2019. Nonetheless, participation increased substantially during the pandemic period before declining in subsequent years.

Figure 50 – Percentage of the Population with NAP / SNAP benefits in the Past 12 Months



Several factors likely contributed to these results. Expanded federal support and temporary policy adjustments during the pandemic increased access to benefits and raised participation levels. More recently, improvements in labor market conditions and increases in earned income may have contributed to declining enrollment. Even so, participation remains above pre-pandemic levels, indicating that a substantial portion of the population continues to rely on nutritional assistance.

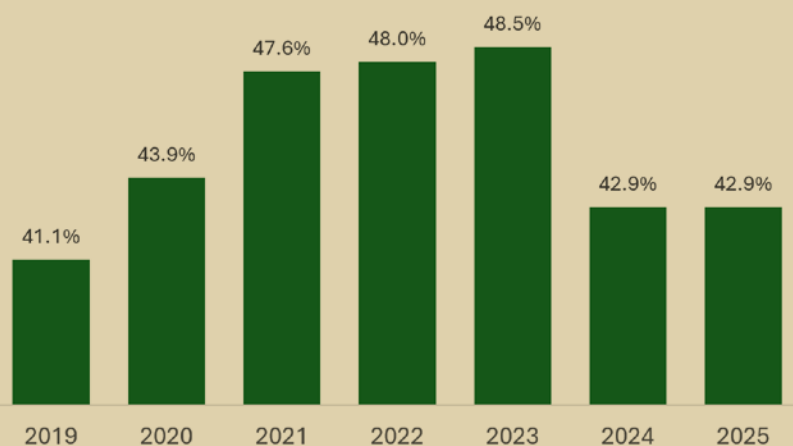
Understanding participation patterns also requires consideration of the program's benefit structure. One notable feature of the NAP program is its gradual phase-out mechanism for participants who begin earning labor income. Under current program rules, benefit reductions occur over time rather than



through an immediate loss of eligibility. This approach is intended to reduce abrupt changes in household resources and support labor force participation among program recipients. In addition, program rules have been adjusted in recent years to account for increases in Puerto Rico's minimum wage. As a result, workers receiving wage increases associated with minimum wage adjustments have generally been able to maintain access to benefits without experiencing immediate and substantial reductions in assistance.

Aside from food stamp / NAP benefits, a significant portion of the population receives medical insurance benefits through the Medicaid-Plan Vital program. Figure 51 shows the percentage of the population enrolled in Medicaid-Plan Vital from 2019 to 2025.

Figure 51 – Percentage of the Population Enrolled in Medicaid–Plan Vital



Source: Puerto Rico Medical Insurance Administration (ASES), ABEXUS Estimates

As shown, 42.9% of the population was enrolled in Medicaid–Plan Vital as of 2025. Since 2019, the share of the population participating in the program increased from 41.1% in 2019 to 48.5% in 2023. This rise in enrollment was primarily driven by increases in the Federal Medical Assistance (FMAP) rates for Puerto Rico set by the US Congress, which climbed from 55% to 76% at the beginning of FY-2020 to assist states and territories in meeting demand during the COVID-19 pandemic⁶. Participation in the program then declined substantially in 2024, potentially driven by the end of automatic Medicaid renewals when the pandemic ended.

Unlike NAP, Medicaid–Plan Vital generally relies on more stringent eligibility thresholds and does not incorporate comparable phase-out mechanisms for many participants. As a result, changes in earned income may affect eligibility more abruptly. Research by the Youth Development Institute (2026) suggests that these eligibility structures may influence labor market decisions for some households, particularly among workers whose earnings are close to program thresholds.

Also, interactions between earnings and program eligibility are not limited to NAP and Medicaid. Similar considerations arise within TANF and Public Housing programs, where eligibility is also linked to household income. Thus, for minimum wage analysis, these interactions are relevant because changes in earnings can affect eligibility for certain programs.

⁶ The Federal Medical Assistance Percentage (FMAP) is computed from a formula that takes into account the average per capita income for each State relative to the national average. By law, the FMAP cannot be less than 50%. A higher FMAP in any given year implies a higher allocation of Medicaid dollars in a state for every dollar of the state's average per-capita income.

Consequently, the relationship between wages, public assistance, and labor force participation should be considered alongside other labor market factors when evaluating possible minimum wage adjustments.

Understanding these interactions is especially relevant in a labor market facing demographic pressures, population aging, and growing demand for workers across multiple sectors. The next section builds on this discussion by examining the extent to which Puerto Rico's labor market may face constraints associated with increasingly tight labor market conditions and the availability of workers.



Full Employment and Capacity Constraints

The previous sections documented substantial improvements in labor market conditions following the pandemic period. Employment increased, unemployment declined, labor force participation improved, and wages rose across much of the economy. A remaining question is whether Puerto Rico retains sufficient labor capacity to support further economic expansion or whether the supply of available workers has become more limited.

Assessing labor market capacity is particularly relevant given the substantial volume of federal reconstruction funds that remain to be disbursed in the coming years. If sufficient labor resources remain available, continued investment and economic activity may support additional job creation. Conversely, if labor availability becomes more constrained, future increases in demand may translate more readily into upward pressure on wages and prices than into further employment gains.

Full employment and labor market capacity should be considered within the broader context of Puerto Rico's economic performance following the pandemic. Figure 52 presents real GNP per capita in constant 2017 dollars. Real GNP per capita stood at \$20,208 in 2020, increased to \$20,994 in 2022, and reached \$21,895 in 2025, representing cumulative growth of 8.3 percent over the period. The pace of expansion,

however, was not uniform. The strongest gains occurred between 2021 and 2024, with real GNP per capita increasing by 3.5 percent from 2021 to 2022, 1.7 percent from 2022 to 2023, and 1.9 percent from 2023 to 2024. By contrast, growth slowed to 0.7 percent between 2024 and 2025. These results show that Puerto Rico's economy continued to expand in real per capita terms following the pandemic contraction, although the pace of growth slowed by 2024.

Viewed in this context, the labor market gains discussed earlier occurred during a period of economic recovery and expansion, but the economy no longer appears to be experiencing the rapid rebound that characterized the immediate post-pandemic period. Consequently, the relevant issue is not only whether additional employment gains can be sustained under current conditions, but also the extent to which future growth may depend on labor force participation, worker availability, and the continued flow of federal reconstruction funding.

Figure 53 summarizes federal funds already disbursed and those expected to enter Puerto Rico's economy in future years. A substantial share of total projected funding has already been disbursed, particularly through pandemic-related relief programs. Most of these resources entered the economy between FY2020 and FY2022, coinciding with the period of strongest post-pandemic labor market expansion.

Figure 52 – Gross National Product per Capita at Constant 2017 Dollars

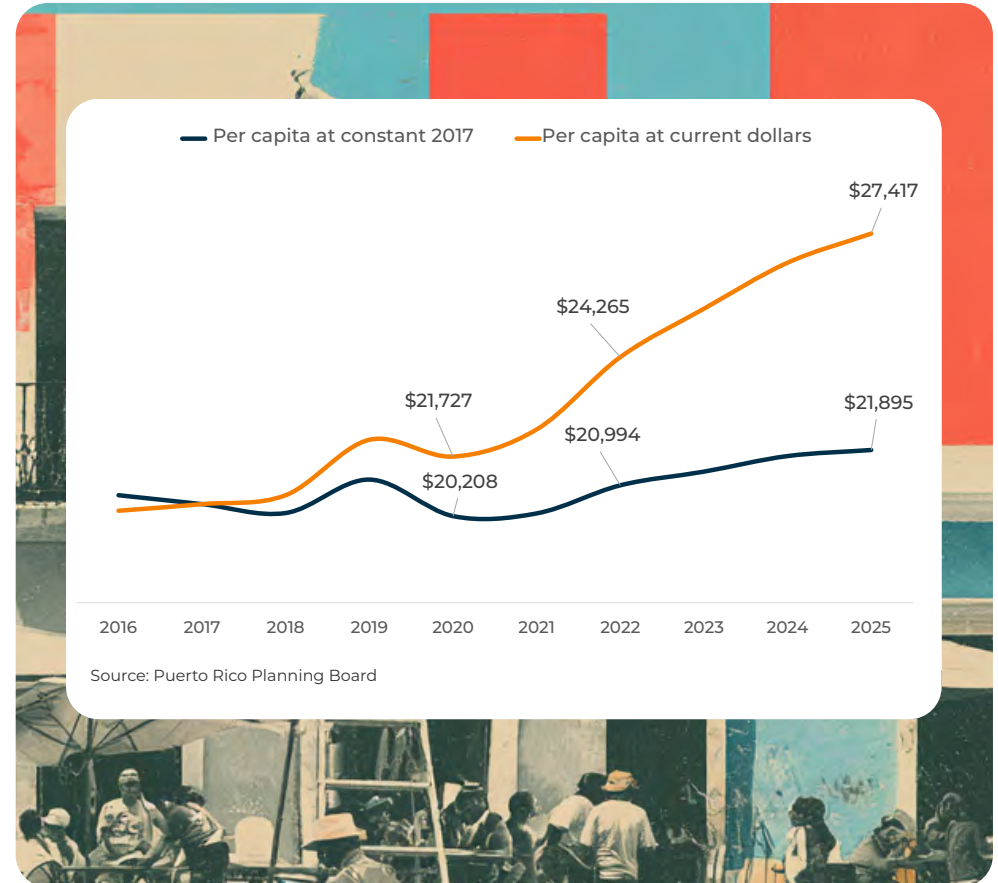
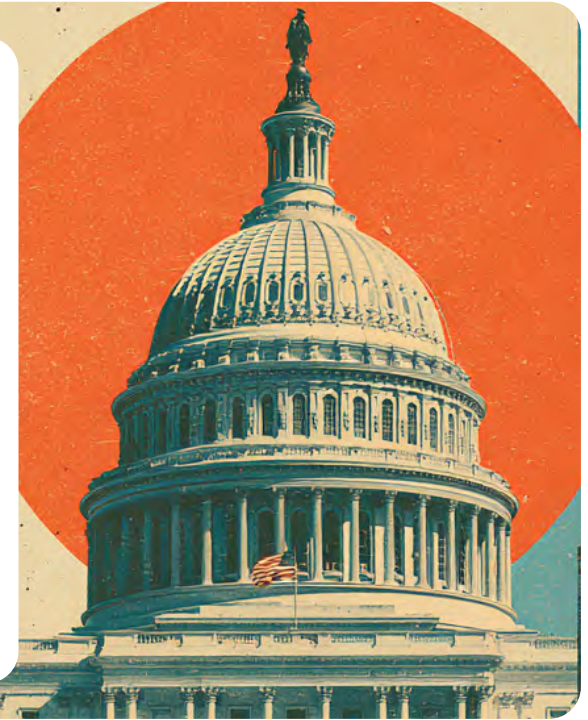
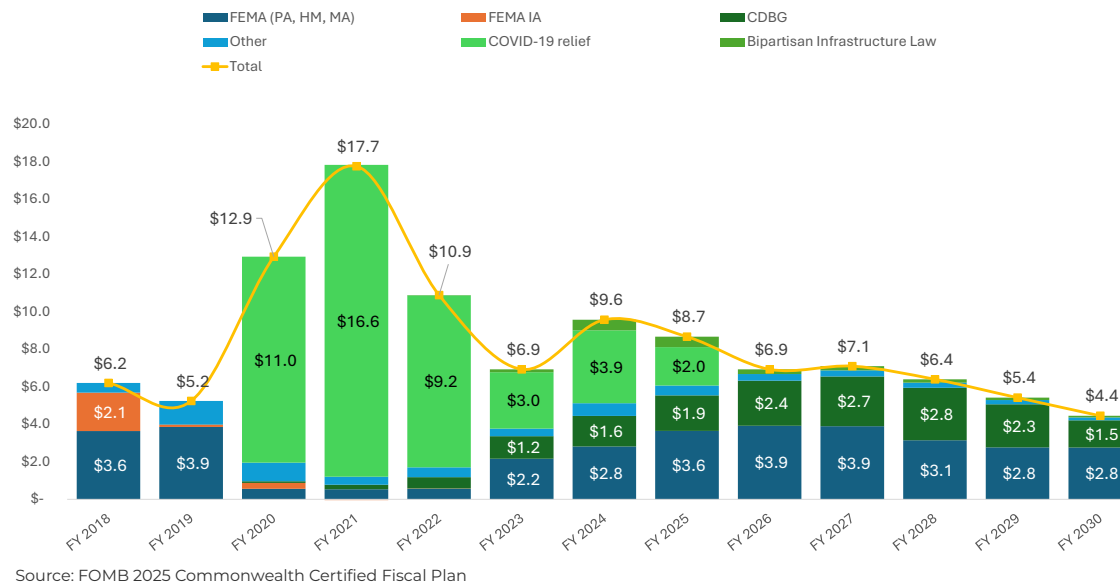


Figure 53 – Billions in Federal Fund Disbursement by Source ⁷



From FY2026 through FY2030, the majority of remaining projected disbursements are associated with FEMA reconstruction programs, including Public Assistance (PA), Hazard Mitigation (HM), and Mission Assignments (MA). Collectively, the amount expected to be disbursed through FY2030 totals approximately \$30.3 billion. Although a significant portion of these expenditures is likely to be concentrated in construction activities, their economic effects are expected

to extend beyond the construction sector, supporting labor demand and economic activity across a broad range of industries through multiplier effects.

At the same time, the extent to which these resources translate into additional employment and economic output will depend in part on the availability of labor and other productive resources. For instance, if there are not enough additional workers available to support reconstruction activities due to structural constraints, increases in demand may place greater pressure on wages and project costs than on employment

⁷ The FY2026 to FY2030 totals were estimated based on totals projected up to 2035 for each source of fund so as to coincide with both the trajectory of the fiscal plan schedule and the period-end totals.

levels. In this context, it is important to examine whether Puerto Rico's economy retains sufficient unused labor capacity to accommodate future increases in demand or whether labor market conditions have become increasingly tight. This issue is closely related to the concept of “full employment”.

One commonly used framework for evaluating labor market capacity is the Non-Accelerating Inflation Rate of Unemployment (NAIRU), defined as the level of unemployment consistent with stable inflation. When unemployment falls below this level, labor markets are generally considered to be operating under increasingly tight conditions, and additional labor demand may be more likely to contribute to upward pressure on wages and prices than to further reductions in unemployment unless labor supply expands through higher labor force participation or migration. As a result, the NAIRU provides a useful benchmark for assessing whether unemployment has additional “room to fall”.

Figure 54 presents the estimates of the NAIRU for Puerto Rico alongside the observed unemployment rate from 2000 to 2025⁸. For most of the period examined, the unemployment rate has been above the estimated NAIRU. Between 2000 and 2005, unemployment remained relatively close to the NAIRU, reflecting comparatively strong labor market conditions

during a period of economic expansion associated with the finance and construction sectors. Beginning in 2006, however, unemployment diverged substantially from the estimated NAIRU as Puerto Rico entered a prolonged economic downturn, highlighting that the economy was operating below its productive capacity and experiencing insufficient labor demand.

More recent developments reveal a markedly different labor market environment. Since 2021, the unemployment rate has declined and has remained below the estimated NAIRU. The position of unemployment relative to the NAIRU is consistent with labor market conditions that are considerably tighter than those observed during most of the 2000–2019 period. Since early 2022, the unemployment rate has remained below the estimated threshold, suggesting that available labor resources may have become increasingly limited (operating in “full employment”).

⁸ The NAIRU measures have been estimated by employing the methodology of Stock, Watson and Steiger (1997): “The NAIRU, Unemployment and Monetary Policy”. For robustness validation purposes, two measures have been estimated: one based on Puerto Rico inflation and another one based on US inflation. Overall, the results are robust to both inflation measures.



Figure 54 – Unemployment Rate and NAIRU Estimates for Puerto Rico (2000–2025)



Under these conditions, additional labor demand associated with federal reconstruction spending or other sources of economic activity may be more likely to place upward pressure on wages and prices than to generate substantial additional reductions in unemployment. This interpretation is broadly consistent with developments observed in recent years,

characterized by continued labor market strength alongside rising wage costs and inflationary pressures. Perhaps more importantly, the persistence of the unemployment rate below the estimated NAIRU suggests that there may be little room for further organic reductions in unemployment. In any case, such a position creates an asymmetric risk profile where

unemployment has more 'room to rise' than to fall. Additional excess demand can make unemployment remain below the NAIRU, but at the cost of sustained price inflation rather than job creation.

The stance of unemployment below the NAIRU, consistent with the economy operating at full employment, has significant implications for minimum wage policy. Given that unemployment has less room to decrease further, any intervention in the form of higher wage floors could result in higher real labor costs. In an environment where labor demand appears to be moderating, increasing labor costs for businesses could place additional downward pressure on job creation, and can even cause job losses in sectors with thin profit margins.

While there is broad agreement in the literature that timely and moderate increases in minimum wages in concentrated labor markets do not necessarily result in employment losses, recent research suggests that labor market responses may differ when the wage floor reaches relatively high levels compared to prevailing sectoral wages⁹. Some studies have identified thresholds beyond which employment effects become more likely, although the precise level varies across countries, industries, and labor market conditions. Estimates cited by the International Monetary Fund have placed this threshold at approximately 35 percent of the average wage. In Puerto Rico, the ratio of the prevailing minimum wage to the average wage

reached approximately 59 percent in 2025, compared with 55 percent in 2018. The literature has also found that changes in the relative level of the minimum wage may influence measures of labor market equilibrium, including estimates of the NAIRU¹⁰.

In addition, increases in labor costs occurring in an environment characterized by relatively tight labor markets and moderating labor demand may be reflected through multiple adjustment channels. These include changes in prices, productivity, profit margins, hiring decisions, and business operations. Recent evidence from a meta-analysis of 199 studies concluded that a 10 percent increase in the minimum wage is associated with consumer price increases ranging from approximately 0.3 percent to 1.1 percent, although estimates vary considerably across industries and economic contexts¹¹.



⁹ Chen and Yao (2025). "Minimum Wage and Employment: Sectoral and Regional Perspectives", International Monetary Fund.

¹⁰ Tulip, 2000. "Do minimum wages raise the NAIRU?"

¹¹ Perez-Perez (2026). "The Effect of the Minimum Wage on Prices: A New Survey and a Meta-Analysis"

Artificial Intelligence Exposure

The advent of artificial intelligence (AI) technologies has demonstrated substantial potential to enhance macroeconomic productivity and allocative efficiency. At the same time, it has raised concerns regarding its potential to displace a high fraction of the labor force. In response to these concerns, several studies have been conducted in an attempt to quantify the impact that AI could have on the labor market.

According to the World Economic Forum's Future of Jobs report for 2025, 86% of employers expect AI and information processing technologies to impact their operations by 2030¹². Furthermore, 39% of the existing skills of workers are projected to be transformed or outdated by 2030. Despite how concerning these figures might seem, the report projects that while an estimated 92 million jobs could be displaced, another 170 million new jobs are projected to be newly created, resulting in an estimated 78 million net new jobs created by 2030. These estimates suggest that AI effects could vary greatly, displacing workers in some sectors while augmenting and creating more jobs in other sectors.

To gather granular evidence on the potential labor market impacts of AI, several studies have focused on estimating the exposure of the U.S. labor force to AI technologies using U.S. occupational level data based on the Standard Occupational

Code (SOC) format. Among the studies conducted, there is no general consensus regarding the specific nature of the impact that AI will have on the labor force. Most of the studies estimate a measure of exposure to AI for each job occupation, but are generally careful as to how they define exposure without specifying if it could displace or augment labor.

Across the literature quantifying AI exposure at the occupational level, an occupation is considered exposed if a larger share of its tasks, work activities, or required abilities overlap with current or plausible AI capabilities. For instance, a study by Eloundou et. al. (2024) defines exposure as a measure for how AI tools, specifically Generative Pre-Trained Transformers¹³ (GPTs), can speed up job tasks within occupations without distinguishing between labor-augmenting or labor-displacing effects¹⁴. In this study, “speed up” is defined as reducing the time needed for a task or detailed work activity by at least 50%, holding quality constant. Another comprehensive study by Felten et. al. (2021) defines exposure as a measure for “how AI applications are related to occupations’ ability composition”, and that it “does not constitute a measure for how substitutable or automatable an occupation is.”¹⁵

¹³ A Generative Pre-Trained Transformer (GPT) is an artificial intelligence model capable of understanding, processing, and creating human-like text, code, and digital content. Distinct from traditional software that merely filters or reorganizes existing data, GPTs are generative, meaning they produce entirely new, contextually relevant outputs from simple human prompts. The technology is pre-trained on massive libraries of human text and data, allowing it to recognize complex patterns and reasoning structures out of the box without requiring custom training by individual businesses. This is driven by a transformer computational architecture, which analyzes data relationships across entire documents simultaneously.

¹⁴ Eloundou, T., Manning, S., Mishkin, P., & Rock, D. (2024). GPTs are GPTs: Labor market impact potential of LLMs. *Science*, 384(6702), 1306-1308. Available at: <https://www.governance.ai/research-paper/gpts-are-gpts-labor-market-impact-potential-of-llms>

¹⁵ Felten, Edward W. and Raj, Manav and Seamans, Robert, Occupational Heterogeneity in Exposure to Generative AI (April 10, 2023). Available at SSRN: <https://ssrn.com/abstract=4414065>

¹² Leopold, T., Di Battista, A., Jatava, X., Sharma, S., Li, R., & Grayling, S. (2025). Future of Jobs Report 2025. In *World Economic Forum*.

The studies conducted find evidence of a significant share of the U.S. labor force exposed in some way to AI tools. The study of Elondou et. al. (2024) estimates that approximately 80% of the U.S. labor force could have at least 10% of their tasks affected by GPTs, and 19% of workers may see around 50% of their tasks impacted. The estimates from Felten et. al. (2021) suggest that at least 43.9% of the U.S. labor force are in occupations with above-median exposure to AI large language models, while 35.7% is exposed to AI image generation tools.

Perhaps the most comprehensive study to date quantifying the impact of AI at the occupational level has been developed by the Yale Budget Lab team¹⁶ (Gimbel et. al., 2026). This study constitutes a meta-analysis of seven distinct AI exposure measures developed across five main studies. Overall, the Yale Budget Lab Team finds that AI exposure metrics broadly agree with each other across studies, but tend to disagree on the occupations that are most exposed. The main disagreement between different metrics concerns the magnitude of the exposure, and not whether a particular occupation is exposed. Furthermore, there is general agreement across the studies surveyed that occupational exposure to AI is *not* indicative of whether AI will automate jobs out of existence.

The estimation of AI exposure metrics at the occupational level for the U.S. labor market represents an opportunity to quantify the impact of AI in the Puerto Rico labor market.

¹⁶ Martha Gimbel, Joshua Kendall and Ryan Kulsakdinun (2026). Labor Market AI Exposure: What Do We Know?

Since the Bureau of Labor Statistics publishes data at the SOC occupational level for Puerto Rico, AI exposure metrics can be mapped to Puerto Rico SOC occupational data to estimate the exposure of the local labor force to AI.

For the purpose of providing estimates of workforce exposure that are not biased toward a particular definition of exposure or methodology, a range of estimates have been computed based on three leading methodologies in the recent literature: the methodology developed by Felten et. al. (2021), Elondou et. al. (2024) and the Yale Budget Lab team. The Yale Budget methodology is based on a meta-analysis of five different studies, thus providing a general measure that is based on multiple methodologies. Furthermore, given that the BLS publishes hourly salary ranges at the occupational level, it is possible to segment minimum wage occupations and obtain estimates of AI exposure for both the overall labor force and minimum wage workers.

Table 6 shows the percentage of the Puerto Rico labor force exposed to AI tools based on the estimates from the three main studies surveyed for both the overall labor force and the minimum wage labor force¹⁷. As observed in the table, there is substantial variation in the estimated share of the local labor force exposed to AI tools between methodologies. The share of the overall labor force exposed to AI tools ranges from 24.4% to 54.8% across the three methodologies applied. As for the

¹⁷ For the purpose of this exercise, minimum wage workers are identified as those workers in occupations with a median hourly wage at the current minimum wage of \$10.50 or less.

minimum wage labor force, the share of workers exposed to AI tools within this group is estimated to be lower, ranging from 7.5% to 35.4%.

When these estimated percentages are applied to the total number of workers in both the overall workforce and the minimum wage workforce, estimates of the number of workers exposed to AI tools can be derived for both groups.

According to the BLS Occupational Employment and Wage Statistics estimates, there are 923,160 total payroll workers and 263,590 minimum wage workers in Puerto Rico. Applying the percentage estimates of the overall workforce exposed to these totals, it is estimated that between 225,251 and 505,892 workers in Puerto Rico could be exposed to AI tools, of which 19,769 to 93,311 are minimum wage workers.

Table 6 – Percentage of the Puerto Rico Labor Force Exposed to AI Tools

Workforce Group	Percentage of the Workforce Exposed to AI	Number of Workers Exposed to AI
All Employees	24.4% - 54.8%	225,251 – 505,892
Minimum Wage Employees	7.5% - 35.4%	19,769 – 93,311

ABEXUS Analytics Estimates

The higher estimated AI exposure shares of the overall workforce relative to the minimum wage workforce implies that workers in higher wage occupations are more exposed to AI tools, which is in line with the findings of the main studies on the labor market impact of AI at the occupational level. Among the studies conducted, there is a general consensus that white-collar, higher wage occupations are significantly more exposed to AI.

On the other hand, lower-wage jobs are considered to be less exposed since these jobs involve a component of physical presence, manual tasks or face-to-face services. Nonetheless, some low-wage or near-low-wage jobs are more exposed because they involve routine communication, scheduling, transactions, document handling or manual information processing. For instance, the Brookings Institution notes that office and administrative support occupations are on the lower-wage end, but are considered to be more exposed to AI tools. Researchers at the Centre for the Governance of AI (Manning and Aguirre, 2026) classify these occupations as highly exposed to AI with low adaptive capacity, suggesting that workers in these occupations might be more vulnerable to AI-induced job displacement¹⁸.

The estimates presented above indicate that a considerable portion of the labor force is exposed to the adoption of AI tools. The total share of the workforce exposed to these technologies could reach approximately 55% according to the higher bound of the estimates shown before. These figures have significant implications for workforce training and adaptation, as well as for minimum wage policy.

It is important to note that exposure of an occupation to AI does not imply that these jobs will be automated away or that workers in these occupations will be displaced. Furthermore, recent literature indicates that whether workers in an occupation are vulnerable to displacement depends not only on whether that occupation is highly exposed to AI, but also on the adaptive capacity of the workers in these occupations to apply new technologies into their work tasks or transfer their skill set to other less exposed occupations.

While many minimum wage workers are not as exposed to AI as white-collar workers, approximately 35% of minimum wage workers could be in occupations exposed to AI. In this context, increasing the cost of minimum wage labor could prompt employers to request workers to learn and apply new AI skills. It could also increase the likelihood of employers seeking to implement labor-saving AI technologies to perform work tasks in minimum wage occupations with high AI exposure.

¹⁸ Manning, S. J., & Aguirre, T. (2026). *How Adaptable Are American Workers to AI-Induced Job Displacement?* (No. w34705). National Bureau of Economic Research.



MAIN FINDINGS

PART IV: MAIN FINDINGS

Observed outcomes of Act 47-2021 minimum wage increases relative to prior estimates

Previous Report Estimates

The following table presents the actual impacts of Act 47-2021 increase in the minimum wage in yellow, with the estimated impact of the \$10.50 increase (expected) in orange. Overall, the MSM's estimates of employment, average annual pay, business closures and temporary unemployment were in line with actual results. Results for the 2023 minimum wage increase to \$9.50 were updated because of revised data.

The implementation of the \$10.50 minimum wage provides an opportunity to compare observed outcomes (presented in Part III of the document) with the estimates developed prior to its implementation. Table 7 presents this comparison and serves as a validation exercise for the empirical framework used in the previous analysis.



**Puerto Rico appears to be
operating in a tighter labor
market.**

**Table 7 – Actual vs Expected Impact of \$10.50 Increase
in the General Minimum Wage**



	Hourly Wage			Expected	
	Minimum Wage	\$8.50	\$9.50		\$10.50
 Employment		240,526	248,532	256,479	261,118
 Average Annual Pay		\$12,842	\$14,149	\$15,080	\$15,107
 Increase in Labor Force*		94,000	45,000	18,000	28,242
 Inflation Estimate**		4.4%	3.1%	2.6%	4.8%
 Business Closures		2,102	3,089	2,374	2,197
 Temporary Unemployment		15,574	16,511	11,024	12,267

Source: ABEXUS Analytics Estimates

* Measured as year over growth in the month the minimum wage came into effect

** Assumed a 3.0% underlying inflation for the implementation of any increase in the minimum wage

Overall, the observed results aligned closely with the prior projections, particularly for the indicators most directly associated with minimum wage workers. The observed number of workers earning the prevailing minimum wage in 2025 reached 256,479, compared with a projected value of 261,118, a difference of approximately 1.8 percent. Similarly, average annual pay among minimum wage workers reached \$15,080, compared with an estimated value of \$15,107, a difference of less than 0.2 percent.

While the worker-level indicators closely tracked prior expectations, somewhat larger differences emerged for broader labor market measures. Labor force growth during the \$10.50 period was lower than projected, while inflation remained below the level assumed in earlier estimates. These differences are not unexpected, as both indicators are influenced by a wide set of factors beyond minimum wage policy, including demographic conditions, migration, federal expenditures, sectoral demand, and other macroeconomic developments. Inflation estimates were also substantially lower than expected due in large part to a steep reduction in the underlying inflation trend which began to fall in July of 2024 precisely as the new \$10.50 hourly minimum wage was implemented.

Similarly, business closures totaled 2,374, compared with a projected value of 2,197, while temporary unemployment reached 11,024 relative to an estimate of 12,267. Although these differences should not be interpreted as causal effects

attributable to the minimum wage increase, they provide additional context for assessing whether observed labor market outcomes evolved substantially differently from the expectations incorporated into the prior analysis.

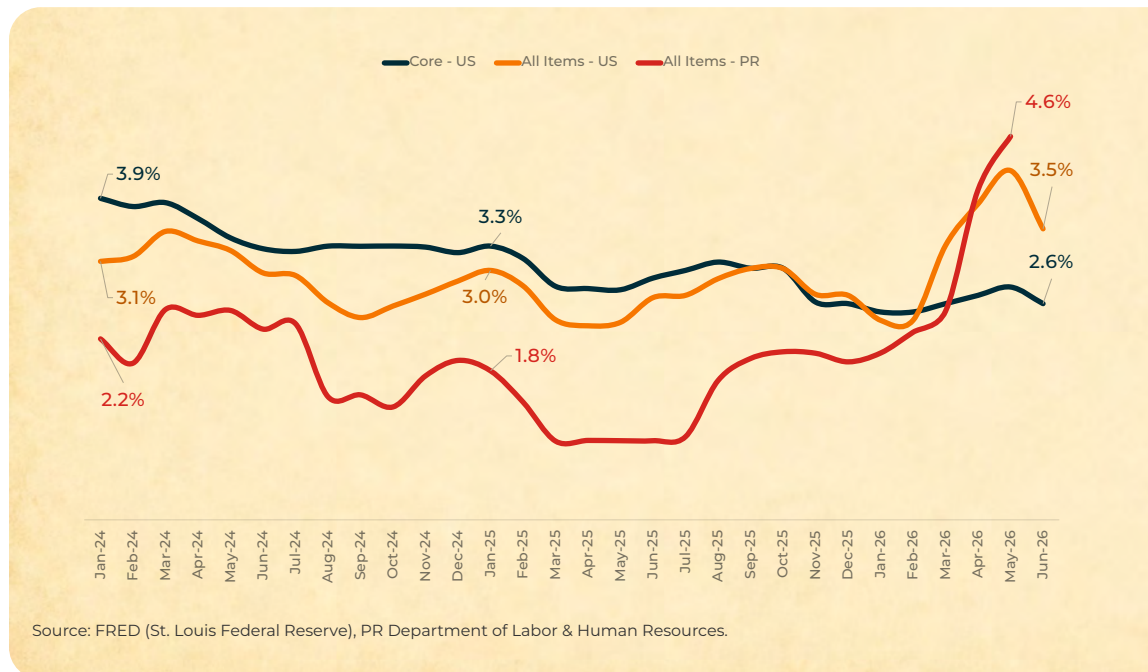
Taken together, the empirical framework provided a reliable approximation of the labor market conditions that emerged during the implementation period.

Cost of Living Analysis

Minimum wage policy cannot be evaluated solely through nominal wage levels. A wage floor of \$10.50 has different implications depending on the prices workers face for food, housing, transportation, utilities, and other basic expenses. For that reason, this section examines recent inflation trends, the real value of the minimum wage over time, and Puerto Rico's cost-of-living position relative to U.S. jurisdictions.

Figure 55 compares recent inflation trends presenting Puerto Rico's all-items inflation rate alongside the U.S. all-items and core inflation rates. As seen, inflation in Puerto Rico moderated during 2024 following the broader decline from the post-pandemic inflation surge. However, the series also signals renewed upward pressure during 2025. Because the statutory wage floor is fixed in nominal terms, inflation can gradually reduce its purchasing power over time.

Figure 55 – US & PR Inflation



Recent inflation developments should be interpreted within the broader context of external price pressures. Changes in import costs, energy prices, transportation expenses, and other production inputs can influence inflation dynamics and household purchasing power. Still, recent inflation trends provide only a partial view of purchasing power. A broader perspective is useful when the minimum wage is examined in real terms over a longer period.

One way to evaluate changes in purchasing power is to express historical minimum wage levels in current dollars. Table 8 presents federal minimum wage values adjusted to March 2026 dollars using both the U.S. Consumer Price Index (US-CPI) and the Puerto Rico Consumer Price Index (PR-CPI). This comparison provides a useful benchmark for evaluating how the purchasing capacity of the minimum wage has evolved under alternative inflation measures.

Table 8 – Inflation Adjusted Federal Minimum Wage

Year	Minimum Wage	Inflation Adjusted — March 2026 Value	
		US-CPI	PR-IPC
1974	\$2.00	13.59	
1978	\$2.65	13.96	
1982	\$3.35	12.69	
1991	\$4.25	10.39	8.26
1997	\$5.15	10.55	8.93
2009	\$7.25	11.15	9.42

Source: US Department of Labor, FRED, PR Department of Labor & Human Resources.

The historical inflation adjusted value of the minimum wage varies depending on the inflation measure and reference period used. Using the US-CPI, the average inflation adjusted federal minimum wage since 1991 is approximately \$10.70 per hour, while the average since 1974 is approximately \$12.06 per hour. These figures provide useful reference points for interpreting Puerto Rico's current \$10.50 wage floor. At the same time, their interpretation depends on the inflation measure used, making the choice of price index an important consideration in the analysis.

The PR-IPC series is included because it provides the principal local measure of inflation. However, several considerations limit its usefulness for long-term historical comparisons. The series is only available beginning in 1984, restricting its use for evaluating longer historical periods. In addition, methodological

limitations reduce its suitability as the principal gauge for assessing long run changes in purchasing power. Consequently, the US-CPI adjusted series serves as the primary benchmark for the historical analysis presented here, while the PR-CPI adjusted values provide an additional local reference point. While these measures help place current wage levels in historical context, they do not fully capture how Puerto Rico's present-day cost structure compares with that of other U.S. jurisdictions.

As discussed in the introduction, the principal benchmark available for Puerto Rico is the Cost-of-Living Index produced by the Puerto Rico Institute of Statistics using the methodology of the Council for Community and Economic Research (C2ER). This index provides a useful point of reference for comparing Puerto Rico's cost structure with that of participating urban areas.

The San Juan-Bayamón-Caguas metropolitan area reported a composite Cost of Living Index of 102.3, indicating a cost-of-living 2.3 percent above the average of participating U.S. urban areas. Among the 301 participating urban areas, the metropolitan area ranked 82nd overall. The utilities index reached 153.1, ranking fourth, while the grocery index reached 112.8, ranking fourteenth. These findings provide important context for understanding Puerto Rico's relative cost structure and are particularly informative when considered alongside the interstate minimum wage comparisons discussed previously.

Special Coverage Issues: Tipped, Exempt, and Agricultural Workers

Minimum wage policy does not apply to all workers through the same institutional channel. The general minimum wage establishes the wage floor for most covered workers, but several worker categories require separate treatment because their compensation rules, coverage conditions, or sector-specific policy instruments differ from the general case.

This section reviews three such categories: gratuity or tipped workers, exempt workers, and agricultural workers. Each category raises a different policy issue. For gratuity workers, the central question is the gap between the direct cash wage and the general minimum wage. For exempt workers, the issue is whether salary thresholds and duties tests exclude workers from standard wage and hour protections. For agricultural workers, the issue is the interaction between separate minimum wage treatment, labor shortages, and sector-specific subsidy programs.

Gratuity / tipped workers

Gratuity workers require separate analysis because their compensation may combine a direct cash wage paid by the employer and tips received from customers. Under the applicable tipped wage framework, the direct cash wage may be below the general minimum wage, provided that cash wages

plus tips reach the required wage floor. If tips are insufficient, the employer must pay the difference. This structure means that the statutory minimum wage for tipped workers must be evaluated differently from the general minimum wage.

In Puerto Rico, the general minimum wage increased under Act 47-2021, but the gratuity minimum wage remains tied to the federal tipped cash wage of \$2.13 per hour. This creates a substantial gap between the direct cash wage paid to gratuity workers and the general minimum wage applicable to most covered workers. The issue is therefore not only whether tipped workers ultimately receive the applicable minimum wage after tips are included, but also how much of their compensation depends on customer tips rather than direct employer-paid wages.

The Accommodation and Food Services industry, NAICS 72, provides the main industry context for this analysis. Employment in this industry surpassed 92,000 workers in 2025, making it a major component of Puerto Rico's service-sector labor market. The number of establishments remained above 5,700 in 2025, although it was still below the peak reached in 2023. The industry is one of the main sectors where workers subject to the gratuity minimum wage are employed.

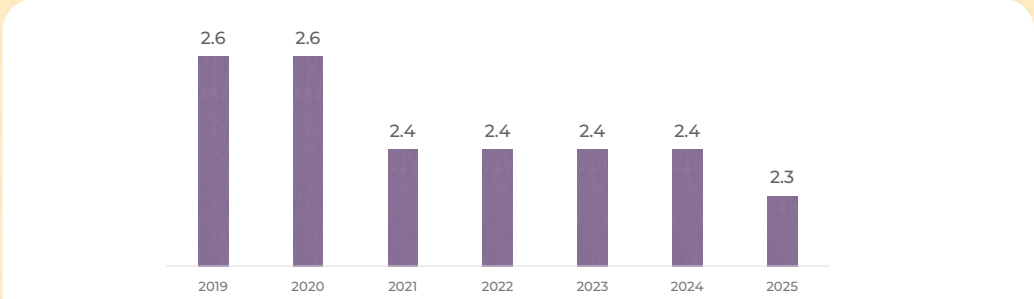
Between 2019 and 2025, gratuity workers grew by 36.4%.

Figure 56 – Employment & Establishments in Food & Accommodations (NAICS 72)



Source: US BLS, QCEW. 2025 is the average of Q1-Q3

Figure 57 – Gratuity Workers Average Number of Quarters with the Same Employer



Source: PR Department of Labor & Human Resources, ABEXUS Estimates

In 2025, the administrative data identify 15,478 gratuity workers.

The data on gratuity workers show a labor market segment with short job attachment. The average number of quarters employed among workers subject to the gratuity wage has remained near post-pandemic highs, at just over two quarters with the same establishment. This indicates that workers in this category tend to have limited continuity with individual employers. The data also show that, among approximately 15,000 workers earning less than the \$10.50 general minimum wage, about 3,100 earned \$2.13 per hour. Even though the number of gratuity workers earning the minimum wage has increased, the number earning \$2.13 per hour has decreased.

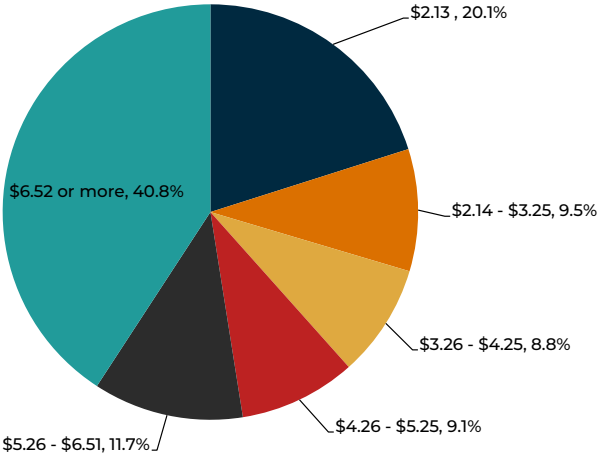
Table 9 – Workers Subject to the Gratuity Minimum Wage

Gratuity Workers			
Year	Above \$2.13	\$2.13	Total
2019	5,699	5,648	11,347
2020	5,959	5,314	11,273
2021	6,823	4,390	11,213
2022	8,204	4,606	12,810
2023	10,796	3,739	14,535
2024	11,638	3,435	15,073
2025	12,366	3,112	15,478

Source: PR Department of Labor & Human Resources, ABEXUS Analytics.

The wage distribution among gratuity workers shows that the statutory \$2.13 rate does not describe the full wage structure of the group. More than half of gratuity workers earned more than \$5.25. At the same time, a portion of workers remained at or near the \$2.13 direct cash wage. The percentage of gratuity workers earning exactly \$2.13 declined as the general minimum wage increased between 2022 and 2025, but the direct cash wage floor itself remained unchanged.

Figure 58 – Distribution of Workers Subject to the Gratuity Minimum Wage in 2025



Source: ABEXUS Estimates, PR Department of Labor & Human Resources

The evidence indicates that Puerto Rico’s treatment of gratuity workers has not moved in parallel with the general minimum wage. The general wage floor increased to \$10.50, while the direct cash wage for gratuity workers remained at \$2.13. This creates a large gap between the general minimum wage and the employer-paid cash wage. For the Commission, the relevant question is whether the gratuity wage should continue to remain tied to the federal tipped cash wage or whether Puerto Rico should establish a local gratuity wage that better reflects its current general minimum wage framework. As observed, more than half the market has moved on to substantially higher hourly wages.

Exempt workers

A second category requiring separate treatment consists of workers who may be classified under executive, administrative, professional, outside sales, or computer-related exemptions. These exemptions are commonly referred to as white-collar exemptions. In these cases, legal status depends not only on compensation but also on the duties performed. A worker’s pay level can indicate potential eligibility for exemption, but it does not determine exemption by itself.

The applicable salary threshold is therefore important. In Puerto Rico, the weekly salary level used for the income component of the exemption is \$455, compared with \$684 in the United States. Additional increases in the threshold had been approved by the Department of Labor under the Biden Administration but were vacated by the Federal Courts reverting the weekly wage threshold to \$684 (see Table 10).

The Puerto Rico threshold is low relative to the current general minimum wage. A full-time worker earning \$10.50 per hour would earn \$420 per week, only \$35 below the \$455 weekly threshold. As a result, a full-time minimum wage worker is close to meeting the income component of the exemption threshold, even though the duties test would still have to be satisfied before the worker could legally be treated as exempt.

The industry distribution of workers who qualify on the basis of income alone provides additional context. Some industries have larger numbers of workers whose earnings exceed the salary threshold, but these counts should not be read as the number of workers who are legally exempt. They show only the workers who meet the income component. Whether a worker is properly classified as exempt also depends on job duties, authority, discretion, professional status, and other legal criteria.

Table 10 – Applicable Exempt Worker Weekly Income to Qualify

Annual Wage	Average Weekly Income	Employees that Qualify
\$23,660	\$455	343,769
\$30,056	\$578	246,143
\$35,568	\$684	189,077
\$43,888	\$844*	128,162
\$58,656	\$1,128*	75,338

Source: ABEXUS Estimates, PR Department of Labor & Human Resources

* Federal court vacated DOL increases above \$684

At the current \$455 threshold, 343,769 workers meet the income screen.

Table 11 – Employees per Industry that Exceeded the Weekly Wage Threshold in 2025

NAICS	Industry	Weekly Wage \$1,128*	Weekly Wage \$844*	Weekly Wage \$684	Weekly Wage \$578	Weekly Wage \$455
62	Health Care and Social Assistance	5,334	12,698	24,203	32,514	47,533
31-33	Manufacturing	12,499	19,228	25,875	32,569	43,467
44-45	Retail Trade	7,261	11,965	18,231	25,183	40,370
52	Finance and Insurance	8,678	14,939	21,559	25,880	29,350
54	Professional, Scientific, and Technical Services	11,107	15,970	20,530	23,573	27,905
42	Wholesale Trade	6,916	10,603	14,284	18,099	23,250
72	Accommodation and Food Services	2,023	4,965	8,443	12,718	21,224
56	Administrative and Support & Waste Management	2,006	4,250	7,464	10,999	20,556
23	Construction	2,713	5,467	8,956	12,793	18,654
61	Educational Services	3,032	5,144	7,443	9,829	14,238
48-49	Transportation and Warehousing	3,238	5,311	7,513	9,390	12,052
51	Information	3,444	5,515	7,044	8,258	9,888
55	Management of Companies and Enterprises	1,401	2,082	3,435	5,820	9,373
53	Real Estate and Rental and Leasing	1,266	2,377	3,800	5,560	9,014
22	Utilities	2,934	4,704	5,740	6,769	7,584
81	Other Services (except Public Administration)	928	1,856	2,936	4,062	6,282
71	Arts, Entertainment, and Recreation	517	940	1,369	1,794	2,602
21	Mining, Quarrying, and Oil and Gas Extraction	41	148	252	333	427
Total		75,338	128,162	189,077	246,143	343,769

Source: ABEXUS Estimates, PR Department of Labor & Human Resources

* Federal court vacated DOL increases above \$684

The low Puerto Rico salary threshold creates a policy concern because it has not kept pace with the general minimum wage. As the statutory wage floor rises, the distance between full-time minimum wage earnings and the exempt salary threshold narrows. A full-time worker earning \$10.50 per hour would earn \$420 per week, only \$35 below the \$455 weekly threshold applicable in Puerto Rico.

This does not mean that minimum-wage workers can automatically be treated as exempt, since the duties test remains legally necessary. However, it does mean that the salary threshold provides a weaker boundary between ordinary covered employment and exempt salaried employment. If the threshold remains low, more relatively low-paid workers may fall close to or above the income screen for exemption, increasing the importance of careful duties-test enforcement and raising the question of whether the Puerto Rico threshold remains appropriate under the current minimum wage framework.

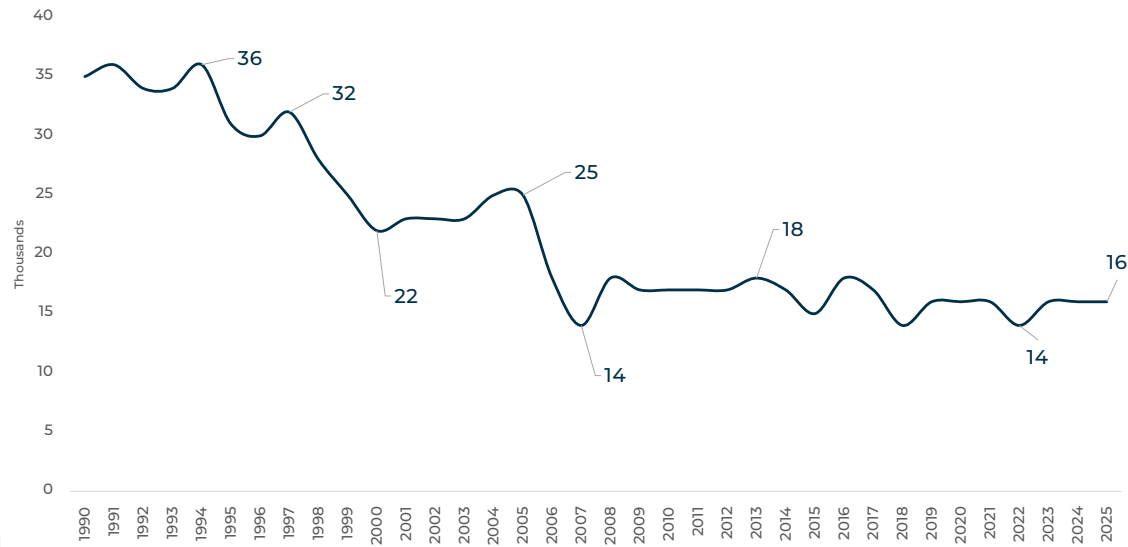
Agricultural workers

Agricultural workers also require separate consideration because agriculture has historically been handled differently from most private-sector employment in minimum wage policy. It is also a sector that is highly subsidized worldwide. The sector combines long-term employment decline, labor shortages, low wages, and public subsidy mechanisms. These features make the agricultural minimum wage question different from the general minimum wage question.

Agricultural employment has declined substantially over the long term. In the early 1990s, employment in agriculture was around 35,000 to 36,000 workers. Since 2023, the number of agricultural workers has remained between approximately 14,000 and 16,000, less than half the level observed in the early 1990s. The sector is therefore operating with a much smaller labor force than in previous decades. At the same time, the industry continues to report labor shortages, which suggests that low employment is not simply the result of weak labor demand.



Figure 59 – Employment in the Agricultural Sector



Source: PR Department of Labor & Human Resources

Agricultural wages are also shaped by subsidy programs. In 2019 and again since 2022, bona fide farmers have been able to receive a subsidy for up to half of the salary paid to their workers, subject to a cap of \$250,000. Workers covered by the subsidy must earn at least \$5.25 per hour. Since the increase in Puerto Rico's general minimum wage, farmers have had to raise wages to maintain their workforce, even though many agricultural

workers remain below the general minimum wage. The sector therefore presents a dual problem: wages remain low relative to the general wage floor, but employers also report difficulty recruiting and retaining workers.

Given the timing and limitations of the available agricultural data, the modeling of minimum wage scenarios for agricultural workers will be completed in a subsequent phase and incorporated as an appendix to this report.

The background of the slide is a collage of four images. The top-left image shows a chef in a white uniform and blue apron working in a kitchen. The top-right image shows a server in a white shirt and blue apron serving a customer. The bottom-left image shows a server in a white shirt and blue apron serving a customer at a table. The bottom-right image shows a server in a white shirt and blue apron serving a customer at a table. The text is overlaid on a white rounded rectangle in the center of the collage.

MICROSIMULATION RESULTS FOR POTENTIAL MINIMUM WAGE INCREASES

Microsimulation results for potential minimum wage increases

Assumptions

The microsimulation model (MSM) results presented in this section are based on the tax return level data highlighted in previous sections and modeling approach described in the methodology section. The model estimates how selected wage scenarios may affect workers, businesses, prices, business closures, and temporary unemployment. These estimates are not forecasts. They are scenario estimates designed to compare the relative scale and distribution of potential effects under a common empirical framework.

The current analysis begins by comparing the actual impact of the increase in the general minimum wage to \$10.50 to the estimates presented in the previous report. Afterward a series of scenarios are estimated of potential impacts of additional increases in the general minimum wage, the gratuity minimum wage, and the exempt salary threshold. These scenarios were specifically requested by the minimum wage commission.

As mentioned, the MSM uses administrative records to identify affected workers and exposed businesses. It then estimates the direct wage or salary-cost effect of each scenario, the corresponding effect on employer labor costs, and the potential

adjustment of businesses through prices, labor costs, margins, or closure. The model also incorporates indirect effects through business-to-business costs, since price increases in one industry may become input-cost increases for firms in other industries.

The results should be interpreted with attention to the assumptions used. The model does not assume that all businesses respond in the same way. It estimates alternative responses under three behavioral assumptions. Two of these assumptions provide upper-bound estimates of price and employment effects. The third uses observed adjustment behavior from recent minimum wage increases and is therefore treated as the most realistic assumption.

Each simulated wage increase is accompanied by a proportional rise in the wages of workers earning up to 115 percent of the simulated wage level. The 115 percent threshold is used because wage adjustments associated with minimum wage increases may extend beyond workers earning exactly the statutory minimum. Firms may adjust wages above the new floor to preserve wage differentials, respond to wage compression, or maintain internal wage ladders.

For workers earning above 115 percent of the simulated wage level, wage changes follow historical trends according to the assumed level of inflation and prior effects of this factor on wages. This allows the current simulations to incorporate Puerto Rico's recent experience with the Act 47-2021 wage increases rather than relying only on general assumptions about how firms may respond.

The model assumes an underlying inflation rate of 3.0 percent for the implementation of the simulated wage scenarios. This underlying inflation rate is used to distinguish general price movement from the additional estimated inflation effect associated with each simulated wage change. Where the tables report inflation or net inflation, the estimates should be interpreted as the modeled price effect associated with the scenario after accounting for the underlying inflation assumption.

The model estimates different outcome measures depending on the type of scenario. For the general minimum wage scenarios, the model reports affected employment, average annual pay, estimated labor force increase, inflation estimate, business closures, and temporary unemployment. For gratuity wage scenarios, the model reports affected employment, net inflation, business closures, and temporary unemployment. For exempt salary threshold scenarios, the model reports affected employment, inflation, business closures, and temporary unemployment.

A business is not classified as closing simply because labor costs increase. A closure is estimated only when the business remains with a negative margin after wage, cost, price, and interindustry effects are incorporated. Temporary unemployment is linked to estimated closures and should be interpreted as transitional unemployment generated within the model, not as permanent job loss.

The model treats the three policy areas differently because they operate through different wage mechanisms. For the general minimum wage, the policy variable is the hourly wage floor. For gratuity workers, the policy variable is the employer-paid direct cash wage, not total compensation including tips. For exempt workers, the policy variable is the weekly salary threshold used for the income component of potential exempt status, not an hourly wage.

Agricultural workers are not included in the current microsimulation results. The report reviews agricultural employment, wages, labor shortages, and subsidy mechanisms, but no new agricultural wage scenario is simulated. The available agricultural subsidy and bonus data showed limitations that prevent their use as a reliable simulation baseline for worker coverage, subsidy amounts, effective wage support, and employer exposure. Agriculture is therefore discussed descriptively rather than included in the microsimulation tables.

Each scenario is modeled under three behavioral assumptions. This structure allows the report to compare how results change depending on whether businesses respond mainly through prices, labor-cost adjustments, or observed behavior.

Under Assumption 1, businesses attempt to maintain the same profit level as before the wage increase. If businesses do not reduce employment, work hours, or other labor costs, they increase prices until their profit margin equals the pre-increase

margin. This assumption provides an upper-bound estimate of potential price effects. It is unlikely to describe all businesses because not every firm can pass the full increase in costs to consumers. Firms may face competitive price constraints, contract limitations, demand reductions, or other market conditions that prevent full pass-through.

Under Assumption 2, businesses attempt to maintain the same labor costs and profit margins as before the wage increase by reducing employment, work hours, or related labor inputs. This assumption provides an upper-bound estimate of potential employment effects. It is also unlikely to describe all businesses because many firms cannot operate with substantially fewer workers or fewer hours without reducing output, service quality, or operating capacity.

Under Assumption 3, businesses are assumed to behave in a manner consistent with observed behavior during the most recent scheduled minimum wage increases. This may include raising prices, reducing labor costs, changing work hours, adjusting employment, absorbing part of the increase through margins, or combining several responses. When firm-specific prior behavior is available, the model uses that behavior. When firm-specific behavior is not available, the model uses the average behavior of businesses in the same three-digit NAICS industry.

Assumptions 1 and 2 are useful as stress cases because they isolate two extreme adjustment channels. Assumption 1 shows the estimated price effect if businesses rely primarily on price increases to restore margins. Assumption 2 shows the estimated employment effect if businesses rely primarily on reductions in employment, hours, or labor inputs. Assumption 3 is the main reference case because it is grounded in observed adjustment behavior rather than a single response channel.

For gratuity workers, the assumptions are applied to changes in the employer-paid direct cash wage. Reported tips help identify and contextualize the affected worker population, but the simulated policy change applies to the direct wage obligation paid by employers. This distinction is necessary because gratuity workers may receive part of their compensation from customers rather than directly from the employer.

For exempt workers, the model includes an additional overtime-cost component. Administrative wage records identify earnings and employers, but they do not provide a complete measure of overtime hours by industry.

To estimate the cost of a change in the exempt minimum wage, the PUMS¹⁹ data was utilized to estimate the average weekly overtime hours per industry at a two-digit NAICS level. When the minimum wage is increased in the model, overtime (OT) pay is calculated for each employee based on the average OT hours for the industry and paid at 1.5 times their current rate.

¹⁹ Puerto Rico PUMS 5-year estimates 2018-2022.

The business would then choose the lowest cost between paying the overtime or increasing the employee's wage to the new minimum wage. Also, if the cost of the OT pay falls within 5% of the pay at the new minimum wage, the minimum wage is selected.

Additionally, the model incorporates adjustment, management, and familiarization costs. These were included in the US DOL estimates as part of their decision to increase the exempt minimum wage. The costs estimated by the US DOL are as follows:

- **Familiarization Cost** – 1 hour per business impacted at a rate of the occupation SOC – 131141²⁰
- **Adjustment Cost** – estimated by the US DOL at 1.25 hours per employee impacted. Paid at the applicable rate for SOC – 131141.
- **Management Cost** – estimated by the US DOL at 0.17 hours (10 minutes) per employee affected.

Adjustment costs, familiarization costs, and management costs were all increased by the US DOL by 45% (in the hourly wage of SOC – 131141) to account for employee benefits and a further 17% increase to account for overhead costs.

Given the higher cost of doing business in Puerto Rico, the above-mentioned costs estimated by the US DOL were doubled for Puerto Rico. That is, 2 hours for familiarization, 2.5 hours for

adjustment costs, and 0.34 hours for management costs (20 minutes per employee).

The exempt worker simulations estimate payroll cost and overtime cost implications of changing the weekly salary threshold. They do not determine legal exempt status for individual workers, since legal exemption also depends on the salary-basis requirement and the duties test. The results should therefore be interpreted as estimates of exposure to salary-threshold changes, not as a legal classification of workers.

New Scenarios

The current report evaluates three sets of scenarios: general minimum wage scenarios, gratuity minimum wage scenarios, and exempt salary threshold scenarios. The scenarios reflect the current 2026 analysis and begin with the existing \$10.50 general minimum wage.

The general minimum wage scenarios evaluate potential increases from the current \$10.50 wage floor to selected higher hourly wage levels. The simulated wage levels are \$10.75, \$11.00, \$11.25, and \$11.50.

The gratuity minimum wage scenarios evaluate potential increases in the employer-paid direct cash wage for gratuity workers. The simulated gratuity wage levels are \$3.39, \$3.82, \$4.37, \$5.25, and \$5.50.

The exempt salary threshold scenarios evaluate potential

²⁰ SOC 13-1141 Compensation, Benefits, and Job Analysis Specialists. In May 2025 the Occupational Employment Survey reported the average hourly wage for this occupation at \$24.66.

increases in the weekly salary threshold used for the income component of exempt status. These are not hourly wage scenarios. They estimate the potential effects of changing the weekly salary threshold that determines whether workers meet the income screen for possible exempt classification. The simulated weekly salary thresholds are \$578, \$600, \$635, \$670, and \$684.

No new agricultural minimum wage scenario is included in the current microsimulation results. The report reviews agriculture as a special worker category, but the current data limitations prevent the construction of a sufficiently reliable agricultural simulation baseline. Future agricultural simulations would require reconciled administrative data on agricultural employment, wages, subsidy recipients, subsidy amounts, and coverage across wage-support programs.

Results

The subsequent subsections present the MSM results for each of the minimum wages. Overall, the MSM results show that the modeled effects vary substantially across policy areas. General minimum wage increases affect a larger worker population and produce larger estimated effects on pay, labor force participation, business closures, and temporary unemployment. Gratuity wage increases affect a smaller population and produce lower estimated business and employment effects, although the effects increase as the direct cash wage rises. Exempt salary threshold changes affect a broad income-screen population

and generate larger modeled inflation and closure effects than the gratuity wage scenarios, largely because the analysis incorporates payroll and exposure to overtime costs.

The results show that the estimated effects are not uniform across worker categories. The general minimum wage, gratuity wage, and exempt threshold each operate through different mechanisms and affect different worker and employer populations. For that reason, the scenario results should be evaluated together with the labor-market, productivity, cost-of-living, distributional, and sectoral evidence reviewed earlier in the report. The impact of implementing all of the above scenarios simultaneously wasn't modelled. Each of the scenarios was modeled assuming *ceteris paribus*, or all other things being held equal.

Any and all changes in the minimum wages will carry both positive and negative effects that should be evaluated in terms of overall benefit to the economy, its competitiveness, and its impact on economic development.

Important Note: The results should be interpreted as scenario estimates. They quantify the estimated effects of selected wage or threshold changes under the model assumptions described above and do not represent forecasts of actual outcomes. Actual effects will depend on prevailing economic and labor market conditions at the time of implementation, including inflation, labor demand and supply, firm margins, consumer demand, productivity, federal funds, and sector-specific conditions.

Table 12 – General Minimum Wage Impact Scenarios

General Minimum Wage

The estimated impacts of potential increases in the general minimum wage from the current \$10.50 per hour wage floor to \$10.75, \$11.00, \$11.25, and \$11.50 are presented in the table below. The model reports affected employment, average annual pay, estimated labor force increase, estimated inflation effect, business closures, and temporary unemployment.



Minimum Wage

Actual

Hourly Wage Scenario

	☛ \$8.50	☛ \$9.50	☛ \$10.50	☛ \$10.75	☛ \$11.00	☛ \$11.25	☛ \$11.50
 Employment	240,526	248,532	256,479	258,059	261,823	267,427	274,923
 Average Annual Pay	\$12,842	\$14,149	\$15,080	\$15,205	\$15,444	\$15,678	\$16,026
 Increase in Labor Force*	94,000	45,000	18,000	4,238	8,398	12,669	16,712
 Inflation Estimate**	4.4%	3.1%	2.6%	3.6%	3.7%	3.9%	4.0%
 Net Inflation	-	-	-	0.6%	0.7%	0.9%	1.0%
 Business Closures	2,102	3,089	2,374	1,203	1,271	1,808	2,232
 Temporary Unemployment	15,574	16,511	11,024	5,946	6,703	12,099	14,602

Source: ABEXUS Analytics Estimates

* Measure as growth year over year in the month the minimum wage came into effect

** Assumed a 3.0% underlying inflation for the implementation of any increase in the minimum wage

The estimated number of workers affected increases with the simulated wage level. At \$10.75, the model estimates 258,059 affected workers. This rises to 261,823 at \$11.00, 267,427 at \$11.25, and 274,923 at \$11.50. The results therefore show that each additional increase expands the number of workers reached by the wage floor, with the largest increase in affected workers occurring in the highest scenario. This also points to less upward movement in the wages of those near the minimum wage.

Average annual pay also increases across the scenarios. The estimated average annual pay is \$15,205 under the \$10.75 scenario, \$15,444 under the \$11.00 scenario, \$15,678 under the \$11.25 scenario, and \$16,026 under the \$11.50 scenario. These estimates indicate that the modeled wage increases would raise average annual pay among affected workers, although the magnitude of the increase depends on the simulated wage level.

The model also estimates a positive labor force effect in each scenario, but impacts are expected to be lower than previous changes in the labor force. These estimates should be interpreted as modeled labor force responses associated with higher wage floors, not as guaranteed increases in labor force participation. They are relevant because they suggest that higher wages may strengthen the incentive to enter or remain in formal employment, particularly in a labor market where participation remains low.

The estimated net inflation effect remains below one percentage point in the first three scenarios and reaches 1.0

percent under the highest scenario. The estimated inflation effect is 0.6 percent at \$10.75, 0.7 percent at \$11.00, 0.9 percent at \$11.25, and 1.0 percent at \$11.50. These estimates are calculated against an assumed 3% underlying inflation rate. They should therefore be read as the model's estimated additional price effect associated with the simulated wage adjustment.

Estimated business closures also increase with the simulated wage level. The model estimates 1,203 closures under the \$10.75 scenario, 1,271 under the \$11.00 scenario, 1,808 under the \$11.25 scenario, and 2,232 under the \$11.50 scenario. Temporary unemployment follows the same pattern, increasing from 5,946 under the \$10.75 scenario to 6,703 under the \$11.00 scenario, 12,099 under the \$11.25 scenario, and 14,602 under the \$11.50 scenario.

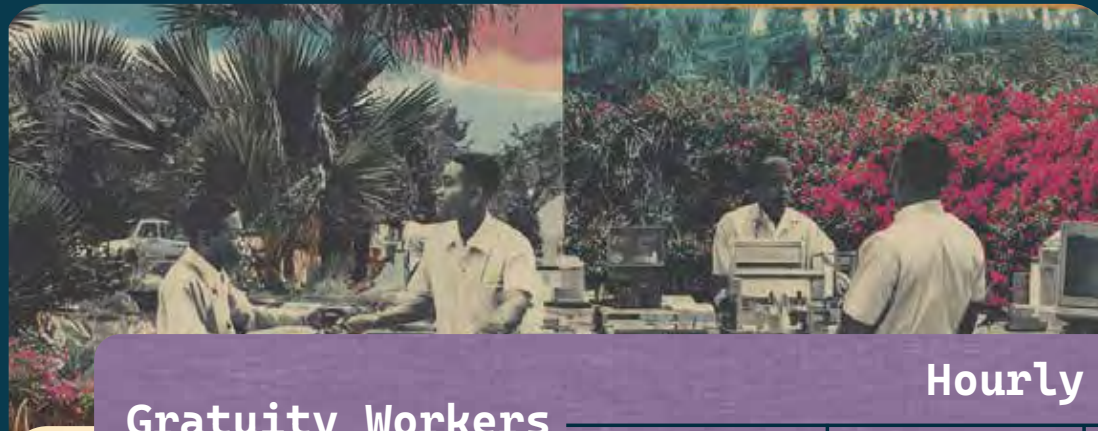
These scenarios do not account for the effects of sudden changes in the general minimum wage. Any adjustment should therefore be implemented gradually to allow companies, particularly smaller businesses, the ability to prepare for and adjust to the expected increase in costs.

The estimated closures and temporary unemployment should also be interpreted geographically. The model does not suggest that adjustment costs would be evenly distributed across Puerto Rico. Areas outside the San Juan metropolitan region, particularly the central region, the southwest, and parts of the southeast, are likely to face greater exposure to modeled closures and transitional unemployment. The same aggregate number of closures or temporarily unemployed workers can have different local effects depending on the size, diversity, and resilience of each regional labor market.

Table 13 – Gratuity Minimum Wage Impact Scenarios

Gratuity Minimum Wage

The gratuity minimum wage scenarios estimate the potential effects of increasing the employer-paid direct cash wage for gratuity workers from \$2.13 to \$3.39, \$3.82, \$4.37, \$5.25, and \$5.50. These scenarios are distinct from the general minimum wage scenarios because gratuity workers may receive tips in addition to employer-paid wages. The simulated policy variable is therefore the direct wage paid by employers, not total compensation including tips²¹.



Gratuity Workers

Hourly Wage Scenario

	☪ \$3.39	☪ \$3.82	☪ \$4.37	☪ \$5.25	☪ \$5.50
 Employment	3,668	4,595	5,910	7,355	8,293
 Net Inflation *	0.5%	0.5%	0.6%	0.7%	0.7%
 Business Closures	14	21	36	62	73
 Temporary Unemployment	86	150	264	480	590

Source: ABEXUS Estimates, PR Department of Labor & Human Resources

*General inflation of 3.0%

²¹ The impact on the cost of businesses also takes into consideration the credit on payroll taxes from gratuity workers.

The estimated number of affected gratuity workers increases across the scenarios. At \$3.39, the model estimates 3,668 affected workers. This rises to 4,595 at \$3.82, 5,910 at \$4.37, 7,355 at \$5.25, and 8,293 at \$5.50. The results indicate that higher gratuity wage levels would expand the number of workers directly affected by the employer-paid wage floor.

The estimated net inflation effect remains limited across the gratuity wage scenarios. The model estimates net inflation of 0.5 percent under the \$3.39 and \$3.82 scenarios, 0.6 percent under the \$4.37 scenario, and 0.7 percent under the \$5.25 and \$5.50 scenarios. These estimates suggest that the modeled price effects of gratuity wage increases are smaller than those associated with the general minimum wage scenarios, reflecting the smaller affected worker population and the sectoral concentration of the gratuity wage.

Estimated business closures also rise with the gratuity wage level, but the magnitude remains considerably lower than in the general minimum wage simulations. The model estimates 14 closures under the \$3.39 scenario, 21 under the \$3.82 scenario, 36 under the \$4.37 scenario, 62 under the \$5.25 scenario, and 73 under the \$5.50 scenario. Temporary unemployment increases from 86 under the \$3.39 scenario to 150 under the \$3.82 scenario, 264 under the \$4.37 scenario, 480 under the \$5.25 scenario, and 590 under the \$5.50 scenario.

The gratuity wage results show that higher direct cash wage scenarios reach more workers and reduce the gap between the gratuity wage and the general minimum wage. While the estimated effects on closures and temporary unemployment increase with the simulated wage level, the overall scale of the modeled business and employment effects remains relatively small. This reflects the smaller size of the gratuity-worker population identified in the administrative data.



Table 14 – Exempt Salary Threshold Scenarios

Exempt Salary Threshold Scenarios

The exempt salary threshold scenarios estimate the potential effects of increasing the weekly salary threshold (\$455 currently) used for the income component of exempt status. The simulated thresholds are \$578, \$600, \$635, \$670, and \$684. These are not hourly wage scenarios. They estimate exposure to changes in the weekly salary threshold and the associated cost effects modeled through payroll and overtime cost channels.



Exempt Workers

Weekly Wage Scenario

	🪙 \$578	🪙 \$600	🪙 \$635	🪙 \$670	🪙 \$684
 Employment	246,143	236,887	216,797	199,155	189,077
 Net Inflation *	1.7%	1.7%	1.8%	1.9%	1.9%
 Business Closures	1,758	1,791	1,847	1,895	1,920
 Temporary Unemployment	11,929	12,330	12,654	13,092	13,193

Source: ABEXUS Estimates, PR Department of Labor & Human Resources

*General inflation of 3.0%

The employment figures in the exempt salary threshold table should be interpreted differently from the employment figures in the general minimum wage and gratuity wage tables. In this table, employment refers to the number of workers meeting the income screen under each simulated threshold. As the threshold increases, fewer workers meet the income screen. The estimated count declines from 246,143 under the \$578 threshold to 236,887 under the \$600 threshold, 216,797 under the \$635 threshold, 199,155 under the \$670 threshold, and 189,077 under the \$684 threshold. This decline does not mean that the model estimates employment losses of that magnitude. It means that fewer workers would satisfy the income component for potential exempt status as the salary threshold rises.

The estimated net inflation effects are larger than those for the general minimum wage because these scenarios affect a substantial number of workers with higher salaries. Even so, given that the requested scenarios differ only slightly from one another, the estimated impacts on workers, businesses, and unemployment are similar across scenarios.

The model estimates inflation of 1.7 percent under the \$578 and \$600 thresholds, 1.8 percent under the \$635 threshold, and 1.9 percent under the \$670 and \$684 thresholds. These estimates are higher than the net inflation effects reported for the gratuity wage scenarios and higher than the estimated inflation effects for the lower general minimum wage scenarios. This reflects the broader population captured by the income screen and the role of overtime cost exposure in the exempt threshold simulations.

Estimated business closures also increase across the exempt threshold scenarios. The model estimates 1,758 closures under the \$578 threshold, 1,791 under the \$600 threshold, 1,847 under the \$635 threshold, 1,895 under the \$670 threshold, and 1,920 under the \$684 threshold. Temporary unemployment rises from 11,929 under the \$578 threshold to 12,330 under the \$600 threshold, 12,654 under the \$635 threshold, 13,092 under the \$670 threshold, and 13,193 under the \$684 threshold.

The exempt threshold results require careful interpretation. The simulated thresholds do not determine which workers are legally exempt, because legal exempt status also depends on the salary basis requirement and the duties test. The results estimate exposure to changes in the income screen and the cost implications of higher thresholds, including exposure to overtime costs.

The results indicate that increasing the threshold reduces the number of workers meeting the income screen for exemption, while increasing modeled labor cost, price, closure, and temporary unemployment effects. The estimated effects are gradual across the scenarios rather than sharply discontinuous.



The background of the slide is a collage of three distinct images. The top-left image shows a hillside densely packed with multi-story houses, many with red-tiled roofs, interspersed with lush greenery and palm trees. The top-right image is a solid, bright orange rectangular block. The bottom image shows a person in a light-colored uniform and a dark cap, seen from behind, looking out of a window. To the right of the person is a blue wall with a framed poster or notice. The entire collage is set against a dark blue, textured background.

CONCLUDING REMARKS

Concluding Remarks

Puerto Rico's labor market has improved substantially since the pandemic shock. Total employment increased between 2019 and 2025, labor force participation rose, and unemployment declined. These gains occurred during a period that included the scheduled minimum wage increases established under Act 47-2021. The available post-implementation evidence indicates that the labor market continued to absorb the \$10.50 minimum wage without a broad contraction in aggregate employment or establishments.

This latest analysis benefits from a stronger empirical base than prior reports. The core administrative records used in the model cover the period from 2019-Q1 through 2025-Q4, providing seven full years of quarterly administrative data and the first complete calendar year after implementation of the \$10.50 wage floor. This allows the report to incorporate observed labor market and business outcomes after the final scheduled increase under Act 47-2021.

The comparison between the prior report's estimates and observed outcomes also supports the current framework. The observed number of minimum wage workers in 2025 was closely aligned with the prior report's estimate prepared before the \$10.50 increase took effect, and average annual pay among minimum wage workers was also closely aligned with the expected value. This alignment strengthens confidence in the

empirical framework used to estimate minimum wage effects, especially for the worker-level outcomes most directly tied to the wage floor.

At the same time, the evidence shows that hourly wage policy and annual income do not necessarily move in proportional alignment. The statutory minimum wage increased substantially over the Act 47-2021 sequence, but average annual pay among minimum wage workers did not rise proportionally with the hourly wage floor. This is explained by the fact that annual earnings also depend on hours worked, weeks worked, schedule stability, job tenure, and the number of jobs held during the year. The evidence is consistent with a labor market in which the wage floor rose without broad employment contraction, while some adjustment may have occurred through hours or schedules.

The number of workers earning the minimum wage also appears to have moved through different phases. It declined sharply during the pandemic and immediate post-pandemic period, when federal aid, labor shortages, and strong demand pushed many employers to raise wages in order to attract workers. It then stabilized and began to increase modestly in the most recent years. This suggests that the post-pandemic labor market adjustment has moderated. As demand and wage pressures stabilized, the number of workers at the prevailing minimum wage began to rise again, especially in industries where minimum wage employment is concentrated, including food services and retail.

Multiple employment remains another important signal. The number of minimum wage or near-minimum-wage workers holding more than one job has been relatively stable over time. This suggests that multiple-jobholding is not only a temporary response to a single wage increase or business-cycle shock. It appears to represent a persistent segment of the labor market in which workers rely on more than one job to reach sufficient annual earnings. This reinforces the importance of evaluating minimum wage policy through annual income, hours, job stability, and household needs, not only through the hourly wage floor.

As previously mentioned, the labor market now differs from the one that prevailed during the early post-pandemic recovery. Employment growth has moderated, payroll employment declined in 2025, and unemployment is low. Measures based on the relationship between unemployment and inflation are consistent with reduced labor market slack. These indicators suggest a tighter labor market among active labor force participants. However, labor force participation remains low, and a large share of the adult population remains outside formal employment.

This distinction is central for policy purposes. Puerto Rico's labor supply constraints are partly demographic, reflecting population decline, aging, retirement, low fertility, and migration. However, they are also institutional. Public assistance rules can weaken the financial return to formal work when additional earnings cause workers or households to lose nutrition assistance, health coverage, housing support, or other benefits. Puerto Rico

may therefore appear close to labor market capacity under current policy rules while still having potential labor supply that could be activated through higher labor force participation, formalization of work, return migration, older-worker retention, better childcare access, transportation improvements, and better alignment between wages, benefit thresholds, and tax compliance rules.

Migration is part of this labor-supply question. A minimum wage increase cannot, by itself, reverse Puerto Rico's long-term outmigration or bring back workers who left for broader economic, family, housing, and professional reasons. But wages are part of the economic comparison workers and households make when deciding whether to remain in Puerto Rico, leave, or return. If Puerto Rico seeks to retain working-age residents and attract return migration, the wage floor cannot be evaluated only as a labor cost. It must also be evaluated as part of the Island's broader income structure and its capacity to make formal work economically viable relative to the cost of living.

The cost of living evidence reinforces this point. Puerto Rico's current minimum wage remains below the wage floors adopted by most states that have established minimum wages above the federal standard, even though Puerto Rico is not a low-cost jurisdiction relative to most of these states. The inflation-adjusted purchasing power exercise shows that the current \$10.50 wage floor remains below the purchasing-power benchmark associated with both the 1974 and 1991 federal minimum wages.

Productivity and distributional evidence are also relevant because they affect how higher wages can be absorbed. The Planning Board's productivity measure declined for several years before stabilizing after 2022 and rising modestly through 2024. This does not prove that Act 47-2021 caused the improvement in productivity, but it does show that the scheduled increases occurred during a period in which the prior decline in productivity stopped and may have played a role in its modest increase. Studies have shown that higher wages can boost productivity after implementation by reducing turnover, improving retention, strengthening worker effort, and pushing firms to organize work more efficiently.

Distributional conditions provide another possible adjustment channel. Higher minimum wages are often discussed as if employers can respond only through higher prices, lower hiring, reduced hours, or automation. Those channels are possible and require attention, especially in sectors with thin margins. They are not the only adjustment mechanisms. Part of a wage increase can also be absorbed through changes in margins or through a shift in the distribution of income from capital to labor. Recent wage gains have moved the distribution modestly toward labor, but they have not reversed the broader pattern in which capital continues to receive a larger share of income.

Regarding the microsimulation results, they should be interpreted as scenario estimates rather than forecasts of actual outcomes of a single future path.

They do not imply that further increases from the current \$10.50 wage floor would necessarily produce a broad employment contraction or a large inflationary shock. For the general minimum wage scenarios, estimated inflationary effects remain relatively limited across the simulated range, while estimated employment effects are concentrated in temporary unemployment associated with modeled business closures rather than permanent job loss.

Lower general minimum wage scenarios produce smaller modeled effects on inflation, business closures, and temporary unemployment. Higher scenarios reach more workers and generate larger gains in average annual pay, but they also produce larger adjustment costs. Even in those higher scenarios, however, the simulations do not point to the kind of generalized labor market disruption often assumed in minimum wage debates. Nevertheless, the geographic distribution of these adjustment costs is important. Estimated business closures and temporary unemployment would not be expected to fall evenly across the Island. The modeled effects are likely to be felt more strongly outside the San Juan metropolitan area, particularly in the central region, the southwest, and parts of the southeast. This means that even when aggregate employment and inflation effects appear limited, the results should be interpreted with attention to territorial concentration and the capacity of more vulnerable regional labor markets to absorb business adjustment.

The labor force estimates also complicate a narrow reading of employment effects. The general minimum wage scenarios estimate positive labor force effects, suggesting that higher wages may draw some workers into formal employment or strengthen attachment to the labor market. This is relevant in Puerto Rico because labor force participation remains low even as unemployment has fallen. In that context, the employment question should not be reduced to temporary unemployment alone. The wage floor may also affect the decision to enter, remain in, or return to formal work.

However, the evidence reviewed in this report does not support a single mechanical conclusion regarding the appropriate level of the general minimum wage. The report provides evidence that the recent increases were absorbed without a broad contraction in aggregate employment or establishments; that estimates from the prior report were closely aligned with observed outcomes; that annual pay does not rise mechanically with the hourly wage floor; and that future scenarios vary by affected population, wage mechanism, cost channel, geography, and exposure to business adjustment. As subject matter experts, our role is to provide the Commission with the evidence, estimates, and tradeoffs necessary to support its deliberations, not to substitute the Commission's policy judgment regarding whether the general minimum wage should be increased, maintained, or adjusted through a different mechanism.

The evidence is more conclusive with respect to gratuity workers and exempt workers. In both cases, the applicable wage or threshold has lagged behind the broader minimum wage framework and the rest of Puerto Rico's labor market. The gratuity wage remains tied to a very low federal tipped cash wage, creating a substantial and growing gap between the direct cash wage paid by employers and the general minimum wage applicable to most covered workers. Similarly, the salary threshold applicable to exempt workers remains close to the earnings level of a full-time worker at the current general minimum wage, raising concerns about whether the threshold remains aligned with the policy rationale for exempt status.

These gaps can create labor market distortions. When the general minimum wage increases but related subminimum wage structures or exemption thresholds remain unchanged, the labor market may treat similarly situated workers differently based on compensation structure or legal classification rather than economic function. In the case of gratuity workers, a widening gap between the direct cash wage and the general minimum wage increases reliance on customer tips as a substitute for employer-paid wages. In the case of exempt workers, an outdated salary threshold may allow workers whose earnings are relatively close to the minimum wage to remain outside standard wage and hour protections, even when their compensation no longer reflects the original purpose of the exemption framework.

Accordingly, while the general minimum wage requires a balanced assessment of worker welfare, business capacity, labor force participation, regional impacts, competitiveness, inflation, and economic development, the Commission may have a stronger evidentiary basis to consider recalibrating the gratuity wage and the exempt salary threshold. Such recalibration would not necessarily require abrupt implementation, nor would it eliminate the need to evaluate business impacts. Rather, it would address areas where the current framework appears increasingly misaligned with the broader labor market and where inaction may itself create distortions.

Any and all changes in the minimum wage framework will carry both positive and negative effects that should be evaluated in terms of the overall benefit to the economy, its competitiveness, and its impact on economic development. The impact of implementing multiple changes simultaneously was not modeled in this report. Each scenario was evaluated assuming all other things being equal. Therefore, if the Commission were to consider changes to the general minimum wage, gratuity wage, exempt salary threshold, or agricultural worker treatment at the same time, the combined impact should be evaluated separately.

Finally, the timing and design of any adjustment are as important as the level of the wage or threshold itself. The analyses presented in this report do not fully account for the potential negative effects of implementing a minimum wage increase within a short time span. Sudden changes may create adjustment pressures that are not fully captured by annual or quarterly administrative data, particularly for smaller firms that

require time to revise budgets, update payroll systems, adjust contracts, renegotiate prices, reorganize schedules, or plan for operational changes. Any increase in the minimum wage, gratuity wage, or exempt salary threshold should therefore include sufficient lead time for businesses to adjust, plan, and prepare.

This is particularly important in Puerto Rico, where the businesses most likely to be negatively impacted by minimum wage adjustments include smaller businesses in rural areas that often operate with thin profit margins and burdened administrative structures. A gradual, transparent, and well-communicated implementation process would allow the Commission to pursue consistency and fairness within the wage framework while reducing unnecessary disruption for vulnerable businesses and regional labor markets.



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