Rethinking Gender Pay Equity In A More Transparent World

May 9, 2019 | MT SHRM Total Rewards Conference

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Our Goals:

• Share new ADP Research on Gender Pay Inequity
• Discuss research implications for the future of Talent Management
• Facilitate dialogue to support a fair, compliant, and high performing workplace
• This presentation should not be construed as:
  • A legal opinion
  • A political opinion
  • The final word on a complex and challenging topic

Employee Expectations for Fairness and Transparency

Who doesn’t want equal pay?

90% of job seekers say it’s important to work for a company that embraces transparency.³

77% of women and 63% of men agree:
This country needs to continue making changes to give men and women equality in the workplace.⁴

Critical Trends: Pay Equity Compliance

Increased transparency

- Enforcement and policy development at both federal & state levels
- Social Media/Career sites
- Legal protections for employee sharing of pay data
- Employer awards and recognition

Employer mitigation of risk through self assessment

- Proactive identification of underlying causes of pay disparity may reduce risk of adverse litigation
- Employment policies consistent with pay philosophies establish intent

Shift from regular rate of pay to total compensation

- 69% of salaried workers receive some form of incentive compensation
- Heightened awareness of incentive pay impact to pay equity.

Pay Equity Today: The Tabloid Headline

On average, men make 28% more than women across all industries.¹

Over the past seven years, millennial women’s income has stagnated while their male counterparts’ income has increased.²

¹ & ²: State of the Workforce by Gender, ADP Research Institute, 2016
Finance Executives at a Conference

▪ “That’s a fake number. What is the “real” pay gap strictly due to “bias.””

VS.

▪ “Why should any other number matter than the total pay gap?”

Multiple Independent and Covariant Factors Contribute

Personal opinions regarding pay equity are, not surprisingly, often tied to personal experiences.

Fairness and Pay Equity – f versus F

Fairness – equal pay for equal work

▪ Provable violations of the Equal Pay Act
▪ Egregious denial of opportunity
▪ The focus of lawyers and the media

Fairness – Engaging, rewarding, and optimizing the talents of all employees

▪ Subtle bias’s that impact hiring, pay, performance, and promotion decisions
▪ Social, cultural, and economic barriers that impact career growth and lifetime earnings
▪ The focus of leaders
Base Pay is Only One Consideration

- Trade-offs between pay, career path, and family

- Issue: *Personal Agency*—Are career decisions shaped by circumstance or choice?

- Would career choices be different in a more supportive environment?

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<tr>
<th>Employment Factors</th>
<th>Short Term</th>
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<td><strong>Tangible</strong></td>
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| **Intangible**      |            |           |
| Flexible Work Arrangements | | Organization Mission / Culture |
| Employment Policies  |            | Work Content / Career Development |
| Work / Life Balance: Commute, Dependent Care, etc. | | Supervisor Behavior |
|                     |            | Trust in Senior Management |

ADP RI State of the Workforce Report
Data Overview

- Data sample from January 2018
- 30,000 firms with 50 or more employees
- 18 million total employees
- Derived from merging Payroll, W-2, and HR data
- Representing over 30,000 firms with 50+ employees.
  - 50 to 499: 32%
  - 500 to 999: 13%
  - 1000+: 55%
- Data further cut by industry, age, tenure, gender, and management level.

Data further cut by industry, age, tenure, gender, and management level.

Logic and criteria were developed around 4 themes...

- **Hierarchy:** Management layers within an organization based on the reporting structure determined by supervisor ID (managers and non-managers).
- **Promotion:** Based on employees advancing in the organizational hierarchy OR when employees experience a wage increase which is significantly above the average yearly increase within the firm.
- **Turnover:** Total employee separations either voluntary or involuntary.
- **Span of Control:** Number of direct reports that a manager or supervisor has determined by supervisor ID.

Wages, Gender, Age, and Tenure are available for all management layers!
Evidence from ADP State of the Workforce Report

Distribution of Men/Women by Management Level

ADP Gender Pay Study
ADP’s Study – A Unique Opportunity to Isolate Base and Incentive Pay

- Job level, experience, and education play an important role in total compensation
- To ensure that both genders are at par, the study identifies men and women who:
  - Are of similar age
  - Have exempt positions
  - Have similar starting salaries
  - Were hired in the third quarter of 2010
  - Stayed with the same employer between 2011 and 2016
- Age & starting salaries act as proxy for education, experience and job level.
- The growth pattern in base salary and bonus indicates the presence or absence of pay equity in incentive pay

Why Study Incentive Pay?

- Most pay equity studies focus on societal issues, but don’t clarify the employer’s role
- Our goal was to isolate specific components of pay where employers have:
  - Substantial control over outcomes
  - Potential compliance risk
- Biased Incentive Pay Implies that:
  - An employer can’t objectively identify and reward its best contributors
  - The incentive pay program may not be driving the desired behaviors
  - The incentive pay program likely has a sub-optimal ROI.
Strategic Questions

• Does incentive pay play a significant role in gender pay disparity?

• To what extent does pay inequity become institutionalized at point of hire?

• Do variances in base pay and incentive pay occur together or independently?

• What is the impact of pay disparity over a period of years?

• Do patterns of pay inequity vary by age, base pay, and industry?

Results are consistent with other ADP study

A higher percentage of women are hired into lower paying jobs

These results encompass many socio-demographic factors.

Work / Life balance plays a role, but is hard to measure.*

Proportion of Men / Women Hiring in By Income Group

Gender Distribution Trend by Income Group

KEY TAKEAWAY:
Proportionally more women begin their careers at lower wages.

*Proportion of Men / Women Hiring in By Income Group
Age Distribution by Income

- Similarly, more women are hired at a younger age.
- Proportionately fewer women in higher age bands are newly hired.
- Age and tenure are closely associated with pay.
- Age disparity in hiring, itself arises from multiple socio-demographic factors.

Retention by Age and Income Over 6 Years

Breaking a Myth

- Women are no more likely to leave work prematurely than men.
- Across most ages and income, retention rates are higher for women than men.
- High turnover of 50+ age men may be due to effect of physical "trades".
Compensation Ratios (Female / Male, Male = 100%)

Total Sample – All Exempt Employees Across All Industries – Common Start date (+/- 3 Months)

- **Salary When Hired**
  - 82%
  - F $61,522 | M $75,162
  - Q3 – 2010

- **Growth in Base**
  - 109%
  - F 5.8% | M 5.3%
  - 2011 - 2016

- **Ending Base Salary**
  - 84%
  - F $82,287 | M $98,350
  - 2016

- **Avg (Bonus/Base)**
  - 83%
  - F 11.2% | M 13.5%

- **Avg Annual Bonus**
  - 69%
  - F $8,187 | M $11,843

- **Avg Total Earnings**
  - 81%
  - F $80,085 | M $98,598

Cumulative Total Earnings = $111,078

Disparity in bonuses between genders worsens the pay gap. Because incentive pay is usually tied to base salary, it acts as a direct multiplier.

Compensation Ratios (Female / Male, Male = 100%)

Age 20 – 30, Within $20 – $40K Income Band

- **Salary When Hired**
  - 99%
  - F $33,328 | M $33,729
  - Q3 – 2010

- **Growth in Base**
  - 92%
  - F 9.7% | M 10.5%
  - 2011 - 2016

- **Ending Base Salary**
  - 96%
  - F $54,252 | M $56,779
  - 2016

- **Avg (Bonus/Base)**
  - 79%
  - F 9.4% | M 11.9%

- **Avg Annual Bonus**
  - 77%
  - F $4,240 | M $5,539

- **Avg Total Earnings**
  - 95%
  - F $48,184 | M $56,732

Cumulative Total Earnings = $15,168

- After controlling for age and income, pay differences by gender are smaller, but the probability of measurable gender bias (and employer liability) is higher.
Compensation Ratios (Female / Male, Male = 100%)

Age 30 – 40, Within $20 – $40K Income Band

Salary When Hired
- 96%
  - F $33,099 | M $34,384
Q3 – 2010

Growth in Base
- 101%
  - F 6.9% | M 6.8%
2011 - 2016

Ending Base Salary
- 97%
  - F $46,798 | M $48,314
2016

Avg Total Earnings
- 96%
  - F $43,824 | M $45,730

Avg (Bonus/Base)
- 93%
  - F 9.2% | M 9.8%

Avg Annual Bonus
- 91%
  - F $3,758 | M $4,149

Cumulative Total Earnings = $11,436

For 30 – 40 year age cohort, the pay gap as a percentage remains unchanged from time of hire through six years. Faster growth in base is erased by lower bonuses.

Compensation Ratios (Female / Male, Male = 100%)

Age 40 – 50, Within $20 – $40K Income Band

Salary When Hired
- 95%
  - F $32,721 | M $34,467
Q3 – 2010

Growth in Base
- 110%
  - F 6.1 | M 5.5%
2011 - 2016

Ending Base Salary
- 97%
  - F $44,619 | M $46,000
2016

Avg Total Earnings
- 94%
  - F $43,824 | M $45,730

Avg (Bonus/Base)
- 92%
  - F 9.2% | M 10.1%

Avg Annual Bonus
- 88%
  - F $3,636 | M $4,151

Cumulative Total Earnings = $14,928

For the 40 – 50 year age cohort, base grows more rapidly for women, but disparities at time of hire, combined with incentive pay result in lower total earnings.
Pay Variance within Industry

Core pay patterns were similar across most industries with a few exceptions:

- Information and Education & Health had near gender parity for Bonus/Base ratios
- Gender pay disparity is smallest within the Information Industry at 89%
- Finance & Real Estate industry had greater disparity in base pay, bonus ratios, and annual total earnings

Overall statistical significance of key findings was at 95% confidence interval

Significance for Employers – Redefining Commitment to Pay Equity

- Is the traditional talent management lifecycle suspect?
- Can total rewards be redesigned to better achieve pay equity?
- Do we need to rethink core HR processes?
  - Job role definitions
  - Pay guidance for broad-banding
  - Supervisor discretion for setting pay
  - Equity dashboard as opposed to equity “snapshot”

Pay differences begin at time of hire:
1) Pay negotiations
2) Use of prior salary history
3) Supervisor discretion for role definition and bonus %

Over time, pay gap widens due to:
1) Merit / Performance review / Incentive / Budget
2) Promotion / Mentoring
3) Access to high profile projects
4) Career progression versus family

Incentive pay accelerates pay inequity.
- Cumulative impact is multiplicative
- Historical pay deficit may hinder promotion
- Higher incentive pay often assumed to tie to job performance

Cumulative wage gap represents liability for back pay, not inclusive of potential penalties
The ADP Study suggests that gender pay inequity start at the point of hire. These inequities are reinforced and perpetuated through pay raises and promotional practices.

1. How should we reengineer the talent management cycle to ensure not only compliance with the equal pay act, but also to fully engage and leverage workforce talent?

2. What are the biggest challenges or obstacles to achieve gender pay equity within an organization? How can we build consensus among executives, supervisors, and front line workers around policies and practices needed to achieve fairness?

3. How do we ensure that Diversity and Inclusion are fused into core HR operating practices, dashboards, and management objectives to become a competitive weapon for employers?