Policy Matters Ohio

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Work & Wages

Big Ohio CEOs 200, workers 1:

Company reports show huge pay inequality

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Introduction

Most of Ohio's largest employers paid their chief executive officers more than 200 times what they paid typical employees last year. More than a quarter of the companies paid the CEO more than 500 times as much. Six companies had pay ratios over 1,000. Those are the key results at 53 of Ohio's largest employers that reported pay ratios to the Securities & Exchange Commission. That's especially striking because half a century ago, the ratio of CEO to worker pay at the largest U.S. companies was 20 to 1. Since then, while CEO pay has grown dramatically, pay for typical workers has barely budged.

Companies reported the data, covering 2018, for the second time this year under the Dodd-Frank Act. The federal law required companies to provide the ratio of CEO pay to that of their median worker—the one whose pay falls in the middle of all employees. While caution is needed comparing companies, particularly between different industries, the overall data show the disparity is huge. Policy Matters Ohio reviewed the filings of companies that rank among the top 100 Ohio employers, according to the Ohio Development Services Agency.[1] Altogether, 53 filed reports with the SEC. Many of the top 100 employers do not have to file such reports either because they are nonprofits (for example, the Cleveland Clinic), government employers (Wright-Patterson Air Force Base), privately owned (Giant Eagle) or foreign companies (Honda). Six companies, including Procter & Gamble and Cardinal Health, reported ratios for fiscal years ending before Dec. 31, and were not required to report their first pay ratios until later in 2018. We have used their reports for fiscal years ended in 2018 for this analysis.[2] Three others, UnitedHealth Group, Honeywell International and Dollar Tree joined the list of the top 100 employers in 2018.

Much of this large disparity relates to national policy and broad economic trends, which have led to workers getting a lower share of national income than they once received. We need changes in federal policy, including steps to strengthen unions and worker bargaining power and to reverse tax laws that have reinforced the pay disparities. But there are also actions that Ohio can take. These include restoring higher income-tax rates on top earners, and changing state purchasing policies as well as and economic development subsidies to discourage such pay gaps. Ohio's public pension funds could also press harder for reasonable CEO pay.

[1] Ohio Development Services Agency, "Ohio Major Employers Section 1," May 2019, at https://development.ohio.gov/files/research/B2001.pdf Unless otherwise stated, data on individual companies in this report come from these filings, which are shown in the appendix.

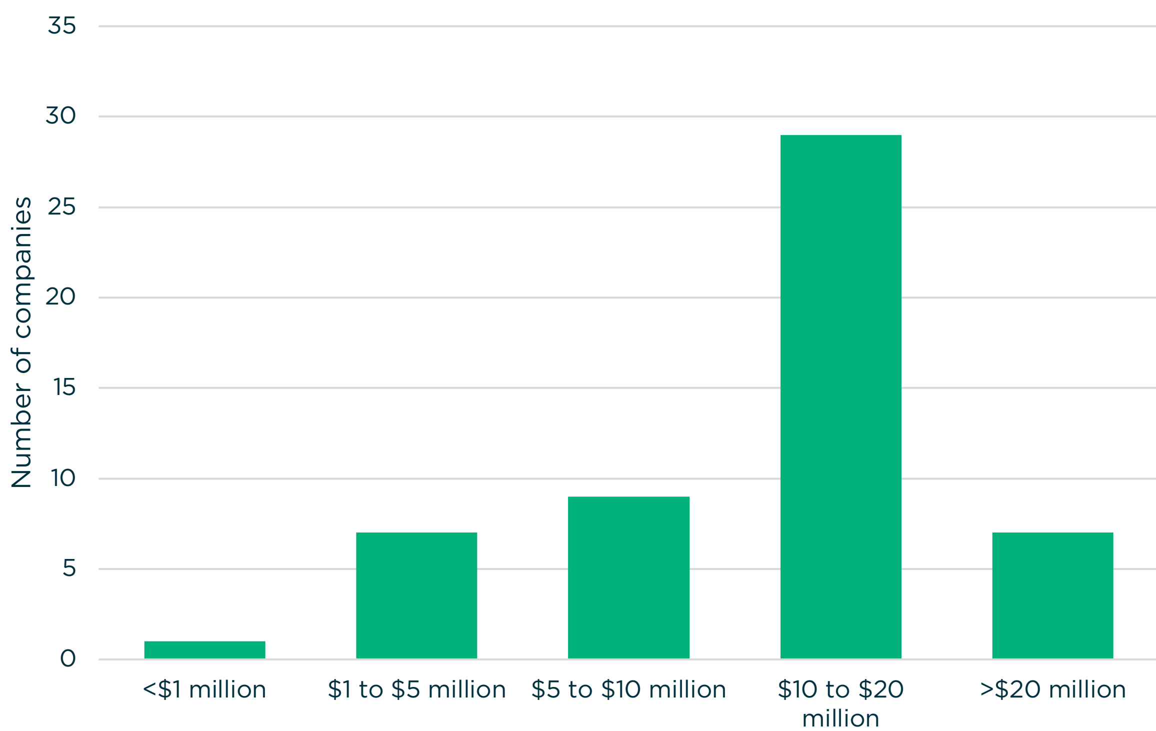
[2] They reported the following CEO-to-median worker pay ratios for their 2019 fiscal year: Procter & Gamble, 309; Cardinal Health, 272; Cintas, 165, and Worthington Industries, 58.

CEO Pay

Forty-five of the 53 CEOs at the top employers made more than $5 million, and 36 made more than $10 million. Only one made less than $1 million, while seven made more than $20 million. The highest-paid CEO was Jamie Dimon of JP Morgan Chase, who made $30 million. Figure 1 shows how much CEOs made among the top employers:

Figure 1

CEO pay at major Ohio companies, 2018

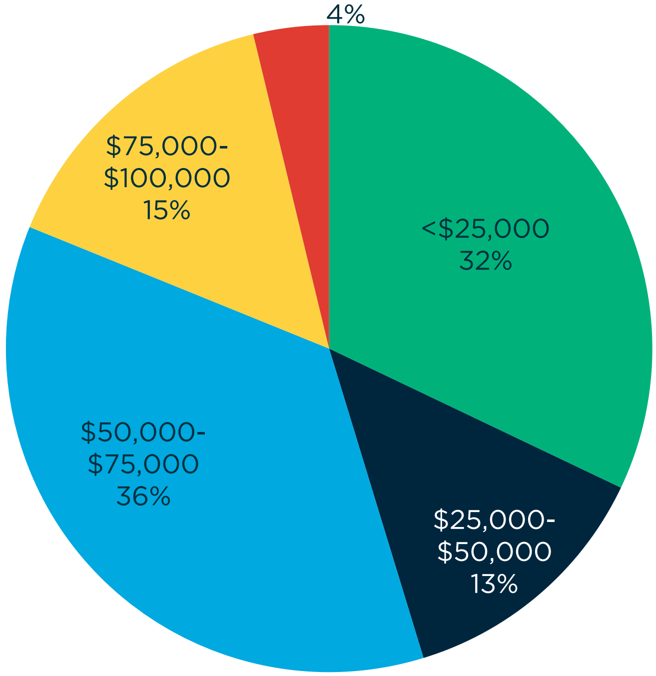


Source: Policy Matters Ohio analysis of company reports to the SEC

Meanwhile, 17 companies among the major employers reported median pay of less than $25,000, which is below the federal poverty level this year for a family of 4. Together, these 17 companies employ more than 210,000 Ohioans. A majority of the total, 29 of the 53, reported median pay of more than $50,000. Yet all but four of these companies – the same number as in 2017 – paid their CEOs at least 100 times what they paid their median worker. Figure 2 shows median pay for workers at the companies that reported:

Figure 2

Median Worker Pay 2018
Share of 53 major Ohio Employers



Source: Policy Matters Ohio analysis of company reports to the SEC

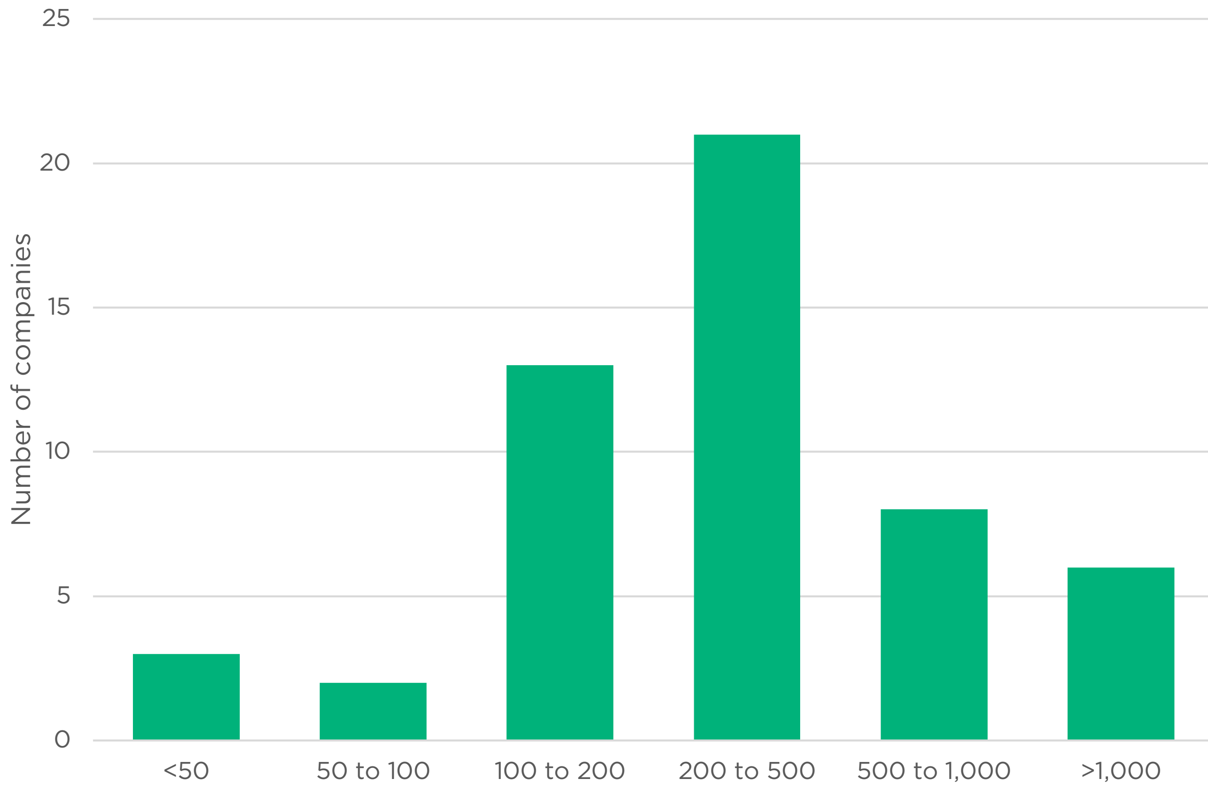
CEO Pay Ratios

All but five of the 53 big Ohio employers paid their CEOs more than 100 times what they paid their typical worker.

Six companies, all retailers, paid their CEOs more than 1,000 times what they paid their typical worker. Thirty-five CEOs made more than 200 times what the median worker did, and 25, or nearly half, made at least 300 times as much. Figure 3 shows ratios of CEO to median worker pay:

Figure 3

Ratio of CEO Pay to Median Worker Pay, 2018

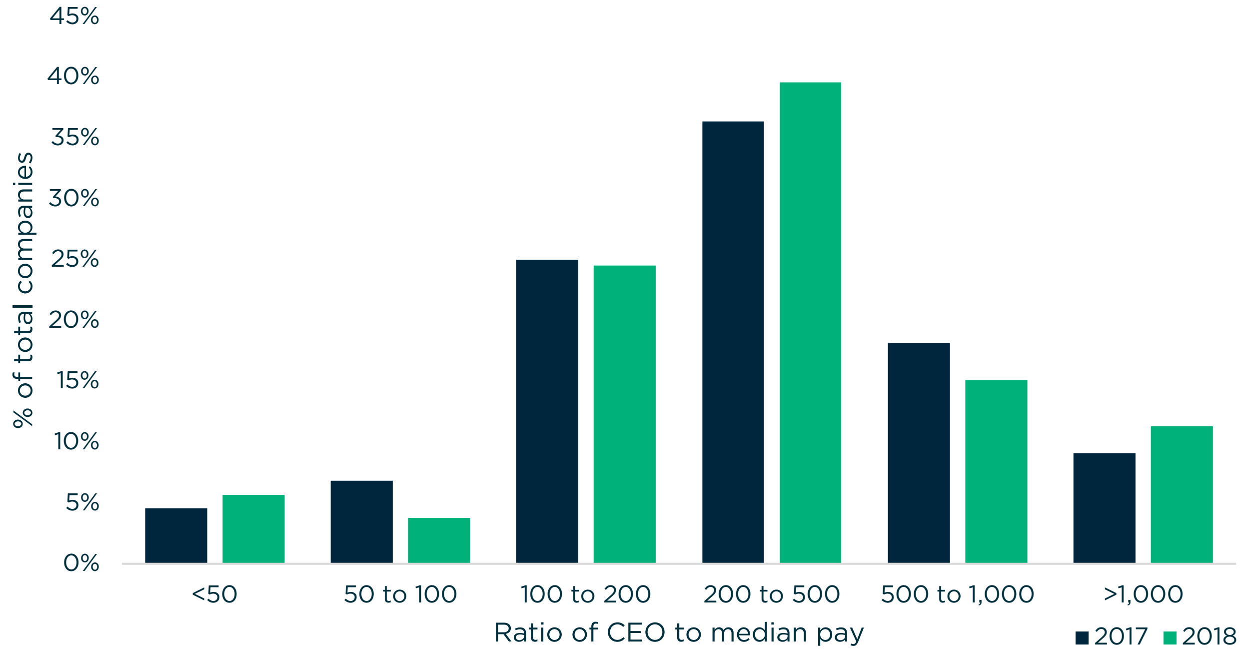


Source: Policy Matters Ohio analysis of company reports to the SEC

Overall, reports for 2018 were similar to those a year earlier. In 2018, 66% of the reporting employers paid their CEOs at least 200 times as much as their median worker, up slightly from the 63.7% a year earlier. The number of employers with ratios over 1,000 grew from four to six. Half the 44 major Ohio employers that also reported for 2017 reported an increase in their pay ratio, led by JC Penney, whose new CEO Jill Soltau earned 1,294 times the typical employee, compared to her predecessor Marvin Ellison, who earned 753 times as much. The other half of companies narrowed the gap between CEO pay and the typical worker. The largest of these was Walmart. The ratio for its CEO Doug McDillon fell from 1,881 in 2017 to 1,076 last year. Despite that reduction, he still had the fifth-highest pay ratio among the top Ohio employers. Figure 3 shows ratios of CEO to median worker pay:

Figure 4

Ratio of CEO Pay to Median Worker Pay (% of total companies)



Source: Policy Matters Ohio analysis of company reports to the SEC

The CEO pay ratio reports of major Ohio employers include large numbers of employees who work outside the state. Some are outside the country. Sherwin-Williams Co. reported its median worker was in Canada and made $42,447. Since CEO John Morikis made $13.2 million, that resulted in a pay ratio of 311 to 1. Table 1 shows CEO pay, median worker pay, and the pay ratio at each of 53 Ohio employers, ranked by Ohio employment.

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Table 1

CEO/Median Employee Pay 2018

Ohio's Major Employers That Reported Ratios

Company	Ohio Employment Rank	Ohioans Employed	CEO Name	Total CEO Comp.	Median Comp.	Ratio
Wal-Mart Stores, Inc.	2	49,330	Doug McMillon	$23,618,233	$21,952	1076
Kroger Co.	3	45,340	Rodney McMullen	$12,037,872	$24,912	483
JP Morgan Chase & Co.	10	21,000	Jamie Dimon	$30,040,153	$78,923	381
United Parcel Service, Inc.	15	14,425	David Abney	$15,072,127	$55,417	272
Lowe's Companies, Inc.*	18	13,400	Marvin Ellison	$10,525,890	$22,921	459
Home Depot, Inc.	20	12,350	Craig Menear	$11,366,662	$23,389	486
General Electric Company**	21	12,000	H. Lawrence Culp Jr.	$20,086,327	$58,204	345
Berkshire Hathaway, Inc.	24	11,800	Warren Buffett	$388,968	$58,691	6.63
Amazon.com, Inc.	25	11,500	Jeff Bezos	$1,681,840	$28,836	58
Progressive Corporation	26	11,000	Tricia Griffith	$14,172,925	$62,925	225
Procter & Gamble Company	26	11,000	David S. Taylor	$17,354,256	$60,412	287
Huntington Bancshares Incorporated	31	10,600	Stephen Steinour	$8,556,915	$58,188	147
Cedar Fair, L.P.***	32	10,500	Richard A. Zimmerman	$3,691,327	$9,600	385
L Brands, Inc.	33	10,300	Leslie Wexner	$4,553,310	$14,186	321
Whirlpool Corporation****	34	9,350	Marc Bitzer	$11,847,762	$20,485	578
Marathon Petroleum Corporation	35	9,300	Gary Heminger	$19,806,050	$27,730	741
CVS Health Corporation	36	8,800	Larry Merlo	$21,953,040	$35,529	618
Fifth Third Bancorp	36	8,800	Greg Carmichael	$11,173,652	$64,186	174
Target Corporation	39	8,600	Brian Cornell	$17,204,069	$22,439	767
Kohl's Corporation*****	40	8,200	Michelle Gass	$12,340,445	$11,069.63	1115
Dollar Tree, Inc.	40	8,200	Gary M. Philbin	$9,398,842	$11,250	835
Charter Communications, Inc. +	42	7,930	Thomas Rutledge	$8,156,151	$55,560	146.8
Dollar General Corporation	44	7,000	Todd Vasos	$10,602,517	$13,773	770
PNC Financial Services Group, Inc.	44	7,000	William S. Demchak	$15,695,189	$67,648	232
First Energy Corp.	44	7,000	Charles Jones	$11,123,128	$96,805	115
AT&T Inc.	45	6,900	Randall Stephenson	$29,118,118	$95,814	304
Cardinal Health, Inc. ++	51	6,700	Mike Kaufmann	$11,356,917	$51,434	221
KeyCorp	54	6,400	Beth E. Mooney	$9,064,470	$62,853	144

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CEO/Median Employee Pay 2018						
Ohio's Major Employers That Reported Ratios						
Company	**Ohio Employment Rank**	**Ohioans Employed**	**CEO Name**	**Total CEO Comp.**	**Median Comp.**	**Ratio**
Macy's, Inc.	55	6,200	Jeffrey Gennette	$12,733,691	$21,885	582
Ford Motor Company	57	6,150	James Hackett	$17,752,835	$64,316	276
Sherwin-Williams Company	59	6,100	John G. Morikis	$13,213,749	$42,447	311
TJX Companies Inc.	61	6,000	Ernie Herrman	$18,822,770	$11,791	1596
American Electric Power Company	61	6,000	Nick Akins	$12,202,028	$110,125	111
U.S. Bancorp	65	5,100	Andrew Cecere	$13,437,128	$58,354	230
Alliance Data Systems Corporation	68	4,800	Edward J. Heffernan	$9,978,474	$62,680	159
General Motors Corporation	72	4,600	Mary Barra	$21,870,450	$77,849	281
Starbucks Corporation	73	4,400	Kevin Johnson	$13,382,480	$12,754	1049
J.C. Penney Corporation, Inc. +++	77	4,100	Jill Soltau	$16,749,378	$12,939	1294
Verizon Communications Inc. ++++	82	3,800	Hans Vestberg	$23,821,477	$120,645	198
Norfolk Southern Corporation	83	3,730	James A. Squires	$14,290,805	$98,477	145
Anthem, Inc.	84	3,700	Gail Koziara Boudreaux	$14,184,276	$72,308	196
Big Lots, Inc. +++++	86	3,600	Bruce K. Thorn	$4,670,326	$8,746	534
Cintas Corporation	86	3,600	Scott D. Farmer	$9,778,369	$50,234	195
Worthington Industries, Inc	89	3,570	John P. McConnell	$4,428,241	$64,145	69
AK Steel Holding Corporation	90	3,500	Roger K. Newport	$12,319,274	$86,804	142
Unitedhealth Group Incorporated	90	3,500	David S. Wichmann	$18,124,873	$57,412	316
Cincinnati Financial Corp.	92	3,350	Steven J. Johnston	$3,444,610	$88,046	39.1
Goodyear Tire & Rubber Company	93	3,300	Richard J. Kramer	$6,213,100	$45,459	137
Abercrombie & Fitch Co.	94	3,250	Fran Horowitz	$8,481,742	$2,317	3660
Signet Jewelers Ltd. / Inc.	96	3,100	Virginia C. Drosos	$8,896,303	$37,794	235
Emerson Electric Co.	96	3,100	David Farr	$15,619,741	$36,791	425
Honeywell International Inc.	100	3,000	Darius Adamczyk	$19,246,604	$66,749	288
Cincinnati Bell Inc.	100	3,000	Leigh R. Fox	$3,101,489	$75,839	41

Notes: *Ellison became CEO Jul. 2, 2018 **Culp became CEO Sept. 30, 2018 ***Zimmerman became CEO Jan. 1, 2018 ****Bitzer became CEO Oct. 1, 2017 *****Gass became Ceo in May 2018 +Company is listed as "Charter Communications, Inc. / Spectrum Management Holding Company, LLC" in the state's list of largest Ohio employers. Charter communications Inc the publically traded company whose information is used in this report, has management arrangements with Spectrum Management Holding LLC. ++Kaufmann became CEO Jan. 1, 2018 +++Soltau became CEO Oct. 15, 2018 ++++Vestberg became CEO Aug. 1, 2018 +++++Thorn became CEO Sept. 30, 2018

The Fortune 500

Ratios are somewhat less extreme at the 21 Ohio-based companies that are members of this year's Fortune 500 list of the nation's largest companies and reported pay ratios for 2018.[3] None are over 1,000 to 1, and two are over 500 to 1. All but one pay their CEO at least 100 times what their median worker makes, and 10 pay at least 200 times as much. Table 2 lists these companies, with those that are not among the top Ohio employers shown above in boldface.

Table 2

CEO/Median Employee Pay

Fortune 500 Companies That Reported Ratios

Company	Fortune 500 Ranking	CEO name	Total CEO Comp	Median Comp	Ratio
Cardinal Health	16	Mike Kaufmann	$11,356,917	$51,434	221
Kroger	20	Rodney McMullen	$12,037,872	$24,912	483
Marathon Petroleum	31	Gary Heminger	$19,806,050	$27,730	741
Procter & Gamble	45	David S. Taylor	$17,354,256	$60,412	287
Progressive	99	Tricia Griffith	$14,172,925	$62,925	225
Macy's	118	Jeffrey Gennette	$12,733,691	$21,885	582
Sherwin-Williams	177	John G. Morikis	$13,213,749	$42,447	311
American Electric Power	192	Nick Akins	$12,202,028	$110,125	111
Goodyear Tire & Rubber	203	Richard J. Kramer	$6,213,100	$45,459	137
Parker-Hannifin	218	Thomas L. Williams	$18,238,44	$54,048	337
L Brands	241	Leslie Wexner	$4,553,310	$14,186	321
FirstEnergy	263	Charles Jones	$11,123,128	$96,805	115
Dana	373	James K. Kamsickas	$10,349,940	$40,510	255
Fifth Third Bancorp	384	Greg Carmichael	$11,173,652	$64,186	174
KeyCorp	413	Beth E. Mooney	$9,064,470	$62,853	144
J.M. Smucker	414	Mark T. Smucker	$6,745,939	$75,742	89
American Financial Group	427	Carl H. Lindner III / S. Craig Lindner	10,209,385 / 10,191,495	$65,880	155
Owens Corning	431	Mike Thaman	$8,737,460	$60,587	144
TravelCenters of America	433	Andrew J Rebholz	$2,043,500	---	---
Owens-Illinois	438	Andres Lopez	$7,500,959	$41,79	179
AK Steel Holding	443	Roger K. Newport	$12,319,274	$86,804	142
Cintas	459	Scott D. Farmer	$9,778,369	$50,234	195

Notes: Companies in bold are NOT in Ohio's top 100 employers. TravelCenters of America did not report median worker pay or a CEO pay ratio in its proxy statement. The company did not return messages from Policy Matters Ohio.

The SEC gave companies flexibility in how they calculate median worker pay. Companies are allowed to exclude up to 5% of their workforces and are permitted to annualize the pay of permanent workers who are employed for only part of the year. The calculation of median pay levels does not always include all the same elements from one company to another; one may include change in value of pension benefits, while another includes bonuses or contributions to health-care premiums or retirement plans. Part-time, seasonal and temporary

[3] One Ohio-based Fortune 500 company, TravelCenters of America, did not report a CEO pay ratio in its proxy statement covering 2018. The company did not return messages from Policy Matters Ohio. In 2017, its ratio was 149 to 1. See https://www.sec.gov/Archives/edgar/data/1378453/000104746918001765/a2234868zdef14a.htm

workers count, and companies are not allowed to adjust their pay in figuring out who the median worker is. The SEC rejected requests by companies to exclude such workers, noting that temporary and seasonal employees aren't a permanent part of the company's workforce. The agency concluded that barring companies from adjusting the compensation of such employees as if they worked on a full-time basis "most accurately captures the workforce and compensation practices that the registrant has chosen to employ."[4]

Retailers stand out

The nine Ohio employers who paid their CEOs most compared to what they paid workers were all retailers; 15 of the top 17 were retailers, and that doesn't include Marathon Petroleum, most of whose employees work at its retail operations. At each of the 15 except CVS Health, median worker pay was less than $25,000 a year; at eight of them, it was less than $15,000. Many of these companies rely heavily on part-time employees. Five of the six companies with pay ratios over 1,000 to 1 – Abercrombie & Fitch, TJX, J.C. Penney, Kohl's and Starbucks – said that their median employee was a part-timer.[5] Others like Target and Dollar Tree said the same, while Macy's reported that 46% of its 142,681 U.S. employees were either part-time or seasonal.

For the second year in a row, Abercrombie & Fitch stood out with the highest pay ratio of any of the top 100 Ohio employers that reported data. CEO Fran Horowitz made nearly $8.5 million, 3,660 times the median pay of just $2,317. According to Abercrombie, that worker was a full-time student who on average worked eight hours a week for seven months.[6] That suggests hourly pay of just under $10 an hour.

Companies aren't required to describe the job of their median employee, but a number do so.[7] At Starbucks, it was a part-time barista in California who made $12,754; at Dollar Tree, it was a part-time hourly store employee in the United States with annual compensation of $11,250 (122,075 out of the company's 178,760 employee are part-time, seasonal or temporary. Dollar Tree said its median full-time employee was an hourly assistant manager who earned $28,188. Even then, that produced a pay ratio of 333 to 1). GE said its median employee was a worker at its Baker Hughes unit in Louisiana. Whirlpool, which had the highest CEO pay ratio of any company without significant retail operations, reported that its median worker was a full-time hourly employee in Mexico who made $20,485. Some 71,985 of the company's 93,447 employees were located outside the United States.[8] L Brands, the parent of Victoria's Secret and Bath & Body Works, reported that its median employee was a part-time, hourly employee who made $14,186. That helped produce a pay ratio of 321 to 1.

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[4] Securities and Exchange Commission, Final Rule, Pay Ratio Disclosure, p. 93, https://www.sec.gov/rules/final/2015/33-9877.pdf

[5] The sixth, Walmart, did not indicate whether that employee was full-time or part-time.

[6] Abercrombie provided this explanation of its extreme pay ratio: "As additional context, the magnitude of our ratio is influenced by our store staffing model which relies on a significant number of part-time and seasonal associates. This approach to store staffing provides flexible, entry-level employment opportunities to students — many of whom are among our core customer demographic — that can become the foundation for a career at Abercrombie & Fitch. As a result, we maintain a "promote from within" mentality, and we provide opportunities for students to shape themselves into top candidates and potential future leaders of the Company. Students and young professionals who are motivated, creative and strategic are natural leaders to drive results in our team-based culture."

[7] Many companies also used the same median employee last year that they did in 2017. The SEC allows companies to use the same employee for up to three years if there hasn't been a change in the employee population or compensation arrangements that the company reasonably believes would result in a significant change to its pay ratio.

[8] Whirlpool excluded its 3,159 employees in Russia in determining its median worker, as allowed under SEC rules.

However, the company stated that, "If total compensation per hour earned by the median employee was extrapolated to full-time employment, median compensation would be approximately $35,450 and the ratio would be 128 to 1. Marathon similarly reported that its median pay of $27,730 skyrocketed to $167,601 when it excluded the 40,100 employees at its Speedway subsidiary. This would have reduced its pay ratio from the 741 it reported to 118. Many companies warned in their notes that their ratios shouldn't be compared to others because of differing methodologies and assumptions in figuring the ratios, and other factors. Certainly, there are dangers in closely comparing individual companies and particularly those in the retail sector to others. Companies' use of contractors to perform lower-wage jobs, for instance, could also affect the numbers. In the appendix, we provide links to each of the company's reports, so readers can see exactly how they went about their calculations. In fact, many companies did not take the opportunity to provide additional information, as they could have, to put their numbers in additional context or to explain why they show what they do.

Whatever the limitations of the data, it illustrates how extraordinarily high such ratios are. The Economic Policy Institute (EPI) calculated and provided to Policy Matters Ohio annual average worker compensation, including benefits, of production and nonsupervisory workers for various retail sectors, using data from the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA).[9] EPI's estimate of CEO to worker compensation is useful in that it provides a more comparable, albeit conservative, measure with which to compare compensation ratios across firms.[10] It found that in clothing stores, food and beverage stores and general merchandise stores, employee pay nationally ranged from $33,127 to $36,733 in 2018. Across those same industries, the CEO-to-worker compensation ratio ranged between 195 and 329 when CEO compensation was measured including the value of stock options realized, or between 208 and 343 when using a measure including the value of stock options at the time they are granted. Importantly, EPI's estimates assume full-year and full-time employment for workers, meaning their estimates likely understate the magnitude of these ratios in industries where workers are often employed part-time or for only a portion of the year.

Five companies paid CEOs less than 100 times what they paid their typical workers. All of them had among the lowest pay for CEOs among the 53 big Ohio employers. Among them were Cincinnati Bell and Cincinnati Financial, for the second year in a row, along with Worthington Industries.[11] The two others with the lowest ratios were Amazon and Berkshire Hathaway. Amazon CEO Jeff Bezos may be the richest man in the world, but his 2018 pay of $1,681,840 was the second-lowest of any of the CEOs at the largest Ohio employers. That produced a pay ratio of 58, though the median Amazon employee made just $28,836. The lowest-paid CEO on the list was another fabulously wealthy CEO, Warren Buffett of Berkshire, who made just $388,968. That was just 6.63 times as much as the median employee there, by far the lowest ratio of any company on the list.

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[9] Data provided by Julia Wolfe, Economic Policy Institute, Oct. 25, 2019

[10] For more information, see Lawrence Mishel and Julia Wolfe, "CEO Compensation Has Grown 940% Since 1978," Economic Policy Institute, Aug. 14, 2019, Box A, p. 14, at https://www.epi.org/publication/ceo-compensation-2018/. The report covers the 350 largest companies that had compensation data available

[11] As described above, we have used the 2018 reports for companies in this report. As noted above, Worthington has reported data for its Fiscal Year 2019, which shows a pay ratio of 58 and CEO pay of $3.7 million, less than the numbers reported in Fiscal Year 2018. See https://www.sec.gov/Archives/edgar/data/108516/000156459019032050/wor-def14a_20190925.htm

Changes Over Time

Corporate boards lavish their CEOs with staggeringly high salaries compared to half a century ago. The largest U.S. companies paid their CEOs 20 times what they paid the typical worker in 1965 and 58 times as much in 1989, according to the Economic Policy Institute.[12] In a recent study, EPI estimated CEOs made 278 times as much as the typical worker in 2018, using a measure that includes stock options realized, along with salary, bonuses, restricted stock awards and long-term incentive payouts.[13] Using that method, it found that corporations paid CEOs 940.3% more in 2018 than they did in 1978, compared to an 11.9% wage increase for the typical worker. CEO pay has grown far faster than the pay for the top 0.1% of wage earners, indicating that such compensation growth "does not simply reflect a competitive race for skills (the 'market for talent') that also increased the value of highly paid professionals: Rather, the growing differential between CEOs and the top 0.1% earners suggest the growth of substantial economic rents in CEO compensation (income not related to a corresponding growth in productivity)." EPI's Lawrence Mishel and Julia Wolfe also noted in their study. "Another implication of rising pay for CEOs and other executives is that it reflects income that otherwise would have accrued to others: What these executives earned was not available for broad-based wage growth for other workers."

Peter Drucker, often seen as the father of modern management, believed that the pay ratio should be no more than 20- or 25-to-1.[14] The growth in CEO pay compared to that of typical workers is one driver of the inequality that has skyrocketed in Ohio and the United States over recent decades. Another paper published by the Economic Policy Institute shows that in 2015 in Ohio, the top 1% captured 15.8% of the income in the state, nearly double the share they had in 1973. Overall, they averaged close to $859,000, compared to just over $46,000 for the bottom 99%.[15]

"The mechanics of chief-executive pay have grown ever more complex, but the rules remain simple: Strong performers get a raise. So do most of the rest," said the Wall Street Journal last spring in a report on CEO pay. "For the fourth year straight, the biggest U.S. companies set CEO pay records in 2018, a Wall Street Journal analysis found, even as a majority delivered negative stock-market returns to their shareholders – a sign of the often-weak relationship between pay and performance."[16]

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[12] Mishel, Lawrence and Julia Wolfe, Economic Policy Institute, "CEO Compensation has grown 940% since 1978," at https://www.epi.org/publication/ceo-compensation-2018/

[13] Including stock options realized reflects what CEOs report on their W-2 forms and actually earned in a given year. EPI also looks at what pay would be based on stock options that are granted in a given year, which produces a lower rate in in 2018 of 221-to-1, and growth since 1978 in CEO pay of 1,007.5%. In its report, it figured worker pay, including benefits, for the key industry of each firm using BLS and BEA data.

[14] McGregor, Jena, "What's the Right Ratio for CEO-to-Worker Pay?" The Washington Post, Sept. 19, 2013, at https://www.washingtonpost.com/news/on-leadership/wp/2013/09/19/whats-the-right-ratio-for-ceo-to-worker-pay/?noredirect=on

[15] Sommeiller, Estelle and Mark Price, "The New Guilded Age," Economic Policy Institute, July 19, 2018, at https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/#epi-toc-10

[16] Francis, Theo and Vanessa Fuhrmans, "Big Companies Pay CEOs for Good Performance – And Bad," The Wall Street Journal, May 17, 2019, at https://www.wsj.com/articles/big-companies-pay-ceos-for-good-performanceand-bad-11558085402

Recommendations

Much of this large disparity relates to national policy and broad economic trends, which have led to workers getting a lower share of national income than they once received. We need changes in federal policy. That includes steps to strengthen unions and worker bargaining power. Norfolk Southern Corp. has the third-highest median worker pay of the 53 Ohio employers, at $98,477. The company noted in its proxy statement that 80% of its employees were covered by collective bargaining agreements, including that median worker. There are also state policies we could adopt to boost worker compensation. Policy Matters Ohio identified a number of them in a report earlier this year, "A New Way Forward."[17]

Change tax policy

We should reverse tax laws that have reinforced the pay disparities and adopt others that will go further. One such effort, a bill introduced by U.S. Senators Bernie Sanders and Elizabeth Warren and Reps. Barbara Lee and Rashida Tlaib, would increase federal tax rates on companies whose CEO pay is 50 or more times that of the median worker.[18]

The Institute for Policy Studies analyzed the potential impact of a federal tax penalty on companies with large pay gaps. It applied graduated rates of 1 percentage point for those with ratios over 100 and up to 5 percentage points for those with ratios over 500.[19] Overall, it found that companies in the S&P500 stock listings would have paid an additional $17.2 billion in taxes in 2018, assuming they made no effort to change the CEO-worker pay ratios. Here's how IPS's Sarah Anderson described the effects on three big companies, each of which happens to be among Ohio's largest employers:

- Walmart, for example, with a pay gap of 1,076 to 1, would have owed as much as $794 million in extra federal taxes in 2018 with this penalty in place. With those millions, the federal government could have extended food stamp benefits to 520,997 people for an entire year.
- Marathon Petroleum, with a 714-to-1 gap, would have owed an extra $228 million, more than enough to provide annual heating assistance for 126,000 low-income people.
- CVS, a drug store chain with a 618-to-1 ratio, would have added a revenue stream that could have provided annual Medicare prescription benefits for 33,977 seniors."

[17] Halbert, Hannah, Mike Shields and Caitlin Johnson, "A New Way Forward: 10 Ways to Support Ohio's Working People, 2019," Policy Matters Ohio, https://www.policymattersohio.org/research-policy/fair-economy/work-wages/minimum-wage/a-new-way-forward-10-ways-to-support-ohios-working-people-2019

[18] Congresswoman Barbara Lee, "Lee, Sanders and Tlaib Partner on to Combat Outrageous CEO Pay," Nov. 13, 2019, at https://lee.house.gov/news/press-releases/lee-sanders-and-tlaib-partner-to-combat-outrageous-ceo-pay

[19] This amounts to less than the penalties proposed in the bill cited above, since the Institute for Policy Studies only started calculating penalties when the pay gap is higher than that stipulated in the bill.

Portland, Oregon, exacts a tax penalty for major companies doing business with the city that pay their CEOs more than 100 times what workers make.[20] San Francisco will vote in March on a measure that would increase the city's gross receipts tax on companies that pay more than 100 times the median pay of their San Francisco workers.[21] Legislators in seven states have introduced legislation to apply a tax penalty to companies with large pay gaps.[22] Over the last 15 years, Ohio has gone in the other direction, slashing the top rate of its income tax from 7.25% to just 4.797%. Ohio should take steps to restore higher income-tax rates on the highest earners.[23]

State purchasing and subsidy policies

Separate from any tax measures, the Ohio General Assembly could adopt state purchasing policies that would give preference to enterprises whose highest paid executive receives less than 25 times the median pay level, or some other specific level. It could also consider disqualifying from state subsidies and grants companies with pay ratios of more than 100.

Pension funds

Ohio public pension funds, which hold tens of billions of dollars in stock, could also take steps to combat excessive CEO pay. Under the Dodd-Frank Act, the same legislation that mandated the reporting of CEO pay ratios, shareholders have been able to participate in advisory votes (known as "Say-on-Pay") on executive compensation since 2011.[24] As You Sow, a shareholder advocacy nonprofit which tracks shareholder votes on CEO pay, found that the Ohio Public Employees Retirement System (OPERS) voted against CEO pay for what As You Sow classified as the top 100 overpaid CEOs 44% of the time last year. That was well below the 73% for the California Public Employees Retirement System, the largest such fund, which has taken a harder line on CEO pay based on company performance.[25]

OPERS, the largest such Ohio fund, approved two changes in its proxy voting guidelines in October addressing executive compensation. It called for shareholders to have the right to approve executive compensation plans to ensure ties to performance, corporate strategy and enhancement of long-term returns to shareholders. It also called for shareholders to have the right to vote on the frequency of Say on Pay resolutions. "We believe companies should have the flexibility to determine the methodology that will help them to attract and retain a CEO that will lead the company," a spokesman told Policy Matters Ohio in response to our questions. "What is vital to our analysis and determination of support is whether we can clearly identify the tie to performance, company strategy and enhancement of long-term returns to shareholders."[26]

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[20] Auditor's Office, City of Portland, Oregon, 188129 Surtax to Business License Tax if ratio of compensation of a company's chief executive officer to median worker is equal or greater than 100:1 amend PCC 7.02.500 ordinance, at https://efiles.portlandoregon.gov/Record/10464332/

[21] Anderson, Sarah, "Will San Francisco Be the Second City to Tax Extreme CEO-Worker Pay Gaps?" Inequality.org, July 11, 2019, at https://inequality.org/great-divide/san-francisco-ceo-tax/

[22] Inequality.org, "CEO-Worker Pay Resource Guide," at https://inequality.org/action/corporate-pay-equity/

[23] See Schiller, Zach and Wendy Patton, "Overhaul: a plan to rebalance Ohio's income tax," Policy Matters Ohio, June 26, 2018, at https://www.policymattersohio.org/press-room/2018/06/26/overhaul-a-plan-to-rebalance-ohios-income-tax

[24] Securities & Exchange Commission, "SEC Adopts Rules for Say-on-Pay and Golden Parachute Compensation as Required Under Dodd-Frank Act," at https://www.sec.gov/news/press/2011/2011-25.htm

[25] As You Sow, "the 100 Most Overpaid CEOs 2019," at https://www.asyousow.org/report/the-100-most-overpaid-ceos-2019. As You Sow also reported that the Ohio School Employees Retirement System voted against those pay packages 52% of the time.

[26] Pramik, Mike, Ohio Public Employee Retirement System, email to Zach Schiller, Nov. 22, 2019.

However, OPERS has not sought to concretely make use of the new CEO-median worker pay data available. Curbing excessive executive pay relative to the typical worker is in the long-term interest of its members. OPERS and other pension funds should move to study how to apply the principle of reasonable CEO compensation, including in investment decisions. They should also explicitly add the CEO pay ratio to the criteria they use in their say-on-pay analysis, adopt limits for what is considered reasonable, and vote against the pay plan of any company that does not meet them.

Outsized CEO pay in relation to typical workers isn't a problem that can be rectified by state action alone. However, there are steps that Ohio can and should take that would move in the right direction.

Appendix

Links to company reports to the SEC (major Ohio employers and Fortune 500 companies)

Abercrombie & Fitch Co.
AK Steel Holding Corporation
Alliance Data Systems Corporation
Amazon.com, Inc.
American Electric Power Company
American Financial Group
Anthem, Inc.
AT&T Inc.
Berkshire Hathaway, Inc.
Big Lots, Inc.
Cardinal Health, Inc.
Cedar Fair, L.P.
Charter Communications, Inc./Spectrum Management Holding Company, LLC
Cincinnati Bell Inc.
Cincinnati Financial Corp.
Cintas Corporation
CVS Health Corporation
Dana
Dollar General Corporation
Dollar Tree, Inc.
Emerson Electric Co.
Fifth Third Bancorp
First Energy Corp.
Ford Motor Company
General Electric Company
General Motors Company
Goodyear Tire & Rubber Company
Home Depot, Inc.
Honeywell International Inc.
Huntington Bancshares Incorporated
J.C. Penney Corporation, Inc.
J.M. Smucker Company
JP Morgan Chase & Co.
KeyCorp
Kohl's Corporation
Kroger Co.
L Brands, Inc.
Lowe's Companies, Inc.
Macy's, Inc.
Marathon Petroleum Corporation
Norfolk Southern Corporation
Owen-Illinois, Inc.
Owens Corning
Parker-Hannifin Corporation
PNC Financial Services Group, Inc.
Procter & Gamble Company
Progressive Corporation
Sherwin-Williams Company
Signet Jewelers Ltd. / Inc.
Starbucks Corporation
Target Corporation
TJX Companies Inc.
TravelCenters of America LLC[27]
U.S. Bancorp
United Parcel Service, Inc.
Unitedhealth Group Incorporated
Verizon Communications Inc.
Wal-Mart Inc.
Whirlpool Corporation
Worthington Industries, Inc.

[27] TravelCenters of America did not report a CEO pay ratio in its proxy statement covering 2018. The company did not return messages from Policy Matters Ohio. In 2017, its ratio was 149 to 1. See here.

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