Policy Matters Ohio

EXECUTIVE SUMMARY
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Work and Wages

BIG OHIO CEOs 200, WORKERS 1
COMPANY REPORTS SHOW HUGE PAY INEQUALITY

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Most of Ohio's largest employers paid their chief executive officers more than 200 times what they paid typical workers 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 of analysis of reports made to the Securities & Exchange Commission by 53 of Ohio's largest employers. The findings are especially striking because half a century ago, the ratio of CEO to worker pay at the largest U.S. companies was 20 to 1.

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. Policy Matters Ohio reviewed the filings of companies that rank among the top 100 Ohio employers, according to the Ohio Development Services Agency. 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, government employers, privately owned or foreign companies. While caution is needed comparing companies, particularly between different industries, the overall data show the disparity is huge.

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. 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. Only five companies paid CEOs less than 100 times what they paid their typical workers. 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. However, all but one pay their CEO at least 100 times what their median worker makes, and 10 pay at least 200 times as much.

The SEC gave companies flexibility in how they calculate worker median pay, so pay levels don't all include the same elements. Part-time, seasonal and temporary workers are counted, and companies are not allowed to adjust their pay in figuring out who the median worker is.

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.

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.

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, But despite the limitations of the data, it illustrates how extraordinarily high such ratios are.

According to a recent study by the Economic Policy Institute, the largest U.S. companies paid their CEOs 20 times what they paid the typical worker in 1965, 58 times as much in 1989, and 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. Using that method, it found that corporations paid CEOs 940.3% more in 2018 than they did in 1978, compared an 11.9% wage increase for the typical worker.

RECOMMENDATIONS

Policymakers can take action to bring more balance between CEO and employee compensation. That includes legislation and executive action to strengthen unions and expand worker bargaining power. They can also reverse tax laws that have reinforced such disparities and instead adopt others to levy additional taxes on companies with outsized pay ratios. While much of this is the province of national policy, there are actions that Ohio or localities could take to reduce pay disparities. These include:

- Ohio should take steps to restore higher income-tax rates on the highest earners, who have seen large reductions over the past 15 years.
- 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.
- Ohio's pension funds for public employees 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 analysis for shareholder votes on executive pay, adopt limits for what is considered reasonable, and vote against the pay plan of any company that does not meet them.