Policy Matters Ohio

EXECUTIVE SUMMARY
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Executive Pay

CEO PAY VS. WORKER PAY: OFTEN, A 200-TO-1 RATIO

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For the first time, U.S. companies have reported what their CEOs make compared with typical workers. Data covering 44 of Ohio's 100 largest employers show CEOs at these companies usually make more than 200 times what their companies' typical workers earn in a year.

Companies reported the data for the first time this year to the Securities & Exchange Commission (SEC), covering 2017. The federal Dodd-Frank Act 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 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. Altogether, 44 have filed reports with the SEC. A majority of the top 100 employers do not have to file such reports either because they are nonprofits, government employers, privately owned or foreign companies. A few others will report later this year but have not yet done so because of when their fiscal years start.

Thirty-nine of the 44 CEOs at the top employers made more than $5 million, and 28 made more than $10 million. Only one made less than $1 million, while five made more than $20 million. Meanwhile, 17 companies among the major employers reported median pay of less than $25,000. A majority, 24 of the 44, reported median pay of more than $50,000. At an overwhelming majority of the companies—39 of the 44—CEOs are making 100 or more times as much as typical employees. Overall, 28 CEOs made more than 200 times the typical worker, based on the reports to the SEC; 21 made more than 300 times as much.

The pattern is similar at the 19 Ohio-based companies that are members of this year's Fortune 500 list of the largest U.S. companies and have reported pay ratios so far. While the largest ratios aren't as high, all but three pay their CEO at least 100 times what their median worker makes, and seven 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.

Retailers account for each of the largest 14 ratios among the 44 big Ohio employers, if you include Marathon Petroleum. It reported that its CEO Gary R. Heminger made $19.67 million in 2017, or 935 times as much as the $21,034 made by Marathon's median worker. When the company's Speedway service station employees were excluded, the ratio was 156 to 1.

Abercrombie & Fitch stands out for its especially low median pay of $2,991 and CEO pay ratio of 3,431, far higher than any other major employer in this report. The company said its median employee is a part-time worker and full-time student who on average worked 7 hours a week for a period of 9 months. Over a year of full-time work, that rate would mean earnings of $22,789. Abercrombie said its CEO pay included a one-time award of almost $3.3 million. If one adjusts CEO and worker pay to account for these company statements, the pay ratio falls to 306, close to the median for the 44 Ohio employers.

Many companies, including Wal-Mart, which ranked second with a pay ratio of 1,188, warned that their ratios shouldn't be compared to others because of differing methodologies and assumptions, as well other factors. But while there are dangers in closely comparing individual companies and particularly those in the retail sector to others, the inescapable conclusion from the reports is that the ratios are extraordinarily high.

The information provided by major retailers demonstrates that many in the industry employ a severe business model that relies on part-time staffing and low pay. In an August 2017 list of Ohio employers with the largest number of public assistance recipients among employees and family members, Speedway ranked 9th. Some 2,734 Speedway employees or family members received food assistance under the Supplemental Nutritional Aid Program, according to data from the Ohio Department of Job & Family Services. Number 1 on the list was Wal-Mart, with 11,560 employees or family members. Other retailers among the top 50 included Kroger, Dollar General, Home Depot, Amazon, Target, Lowe's, CVS Stores and Kohl's.

Two of the companies with the lowest ratios of CEO to median worker pay were Amazon (59-to-1) and Berkshire Hathaway (less than 2-to-1). Warren Buffett, Berkshire CEO, had the lowest pay of any of the CEOs at just $100,000, while Amazon's Jeff Bezos was third-lowest at $1.7 million. Each is among the world's wealthiest people.

According to a recent study by the Economic Policy Institute, the ratio of CEO-to-worker pay at the largest U.S. companies has skyrocketed from 20-to-1 in 1965 and 30-to-1 in 1978 to 312-to-1 in 2017, using a measure that includes stock options realized, along with salary, bonuses, restricted stock awards and long-term incentive payouts. It found that CEO pay grew by 1,070 percent between 1978 and 2017 compared to just 11.2 percent for the typical worker. Peter Drucker, often seen as the father of modern management, believed that the ratio should be no higher than 20-to-1, later scaled back to 25-to-1.

Rising CEO pay has been one factor in the inequality that has grown in Ohio and the United States in recent decades. Yet CEO pay is not well correlated with company performance for shareholders; EPI found that over time, it has grown far faster than stock prices or corporate profits. High ratios can undermine employee morale, undercutting productivity.

Recommendations

Much of the large pay gap relates to national policy and broad economic trends, which have reduced workers' share of national income. We need federal and state policy change to boost worker bargaining power and reverse tax laws that have reinforced the pay disparities.

There are other steps the state or municipalities could take to make CEO pay more accountable. Portland, Oregon exacts a tax penalty on major companies doing business with the city that pay their CEOs more than 100 times what workers make. State purchasing policies could preference enterprises whose pay ratios fall below specified limits. Companies with ratios of more than 100 could be excluded from state subsidies and grants. State retirement funds could adopt more stringent policies to oppose excess CEO compensation. This includes reporting the pay ratios of their investments, studying how to make this more of a factor in investment decisions, adding the ratio to criteria used in shareholder votes on executive pay, and voting against plans that exceed a reasonable limit.