Pearl Meyer

ADVISOR BLOG

Median Employee Pay Not Quite the Spectacle Anticipated

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Yet May Still Spark Employee Relations and Media Fires

Congress—in the aftermath of the financial crisis in 2010—enacted a law requiring public companies to identify the compensation of their median-paid employee, compare that to the CEO as a ratio, and disclose it each year. As noted by the SEC in enacting rules to implement the legislation, Congress provided no rationale for the rule, although presumably it was intended to highlight perceived inequities between executive and average worker pay. Even more importantly, it required companies to disclose for the first time, not what executives were making, but what the median worker was paid. Fast forward eight years and we are left questioning whether the legislation is actually accomplishing its supposed intent. Based on our review of 500 proxies (as of March 30, 2018) tracked on our CEO Pay Ratio page, we think the answer is a resounding no, although it will have the unintended consequences of meddling with employee relations and keeping the media busy for a while.

Median pay is not egregiously low overall.

We were surprised to learn that among the 500 median employee pay levels tracked to date, the average of employees identified at median is nearly $75K, which is larger than many expected. The flip side of what appears to be a relatively high average median employee pay figure is the fact that half of a company's population will now perceive themselves as being paid less than their peers. If they believe they are paid less than median, it may impact productivity and job satisfaction and even lead to retention issues. The problem is compounded this year if these workers understand that corporate tax cuts led to a windfall for their employer, which may not have been shared among employees.

Similar to CEO Pay Ratios, median employee pay varies by industry, size, and number of employees.

Not surprisingly, the highest average median pay, based on data collected thus far, is found within the utility sector at around $151K, with energy ($107K) and real estate ($104K) following a distant second and third. Industries at the lower end of averaged median employee pay are consumer discretionary ($42K), consumer staples ($44K) and industrials ($60K).

Surprisingly, the highest average median pay falls in a middle range of company size by revenue. It is larger for companies with revenues between $1B to $3B, ($82K), as compared to those companies with revenues smaller than $1B or larger than $3B.

Companies with fewer employees also had higher average median pay. Those with under 1,500 employees have an averaged median around $98K, compared to those with over 20,000 employees, where the average median is about $58K.

Median pay is not comparable even across very similar firms.

If the intent was to cast judgment among firms that pay employees less in similar sectors, the Dodd-Frank rule has also failed on that front. In our experience, we have seen companies in the same sector and of the same size that have produced extremely disparate median pay with some paying at median almost double what others are paying. Breaking down the analysis, however, revealed that it was not an apples to oranges comparison despite the similarity of companies, due to a variety of factors including where the company's employees are primarily located, the concentration of white collar vs. blue collar jobs, and level of outsourcing.

The damage is done, even without the pay ratio shame.

Employees are more likely to focus on the raw median pay numbers than the pay ratio itself. And while we are not finding average median pay to be egregiously low in many cases, we all know at the end of the day most employees would like to be paid more than their peers and certainly above median. What's more, local media will be focusing on this number—usually out of context—for regional employee bases.

We fear that Congress has failed to highlight pay differences in a meaningful way. Instead, it has only highlighted an above and below line among a public company's broad workforce. What's more, none of these numbers takes into account the large portion of the population who is self-employed or works for private companies of any size. The Obama administration's attempt to increase the threshold for exempt employee status to nearly $47K hinted that there is a large segment of the US population making below that amount. Certainly that amount is well below the $75K average median reported so far. With the bulk of proxies to be filed in the next few weeks, this story is still developing.

Source: 2018 Main Data Group

About the Author

Deborah Lifshey is a managing director in the New York office, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters. She is a graduate of the Industrial and Labor Relations School at Cornell University and the University of Florida College of Law, and served as a federal clerk for the Honorable Judge Susan H. Black on the Eleventh Circuit Court of Appeals. Prior to joining Pearl Meyer, Ms. Lifshey practiced at Fried, Frank, Harris, Shriver & Jacobson, where she specialized in executive compensation, ERISA matters, and corporate transactions, and at Holland and Knight, where she specialized in employment litigation matters.

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