

April 26, 2021

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: Thursday April 29, 2021 Subcommittee on Diversity & Inclusion Hearing entitled, "Closing the Racial and Gender Wealth Gap Through Compensation Equity."

The Subcommittee on Diversity & Inclusion will hold a virtual hearing entitled, "Closing the Racial and Gender Wealth Gap Through Compensation Equity" on Thursday April 29, 2021 at 12:00 PM ET on Cisco Webex. There will be one panel with the following witnesses:

- **Dr. Andrew Chamberlain**, Chief Economist, Glassdoor
- **Emily M. Dickens, J.D.**, Chief of Staff, Head, Government Affairs and Corporate Secretary, Society for Human Resource Management (SHRM)
- **Maya Raghu**, Director of Workplace Equality and Senior Counsel, National Women's Law Center
- **Dwana Franklin Davis**, Chief Executive Officer, Reboot Representation

Overview

This hearing will explore how discrimination based on gender, race, sexual orientation, and disability has led to compensation and pay disparities in America. Unequal compensation for women and people of color are primary drivers of the gender and racial wealth gap, with white households having a net worth 10 times that of Black household and the median wealth for single white women being \$41,500 compared to \$100 and \$120 for single Black and Hispanic women, respectively.¹ Research shows that companies that pay white men more than their counterparts who are female and people of color may find themselves unable to retain talent, especially diverse employees.² Progress towards closing the gender and racial pay gap has been further delayed because women and people of color have also suffered disproportionate unemployment and financial setbacks during the COVID-19 pandemic.³ Companies can take proactive measures towards closing compensation gaps, including conducting pay equity audits, building inclusive work environments, and publicly disclosing pay gaps. This hearing will also discuss legislative and other solutions to create compensation equity for women and people of color in the workplace.

Compensation Gaps in the United States

¹ Mariko Chang, "[Lifting as We Climb: Women of Color, Wealth, and America's Future](#)," *Insight*, Spring 2010.

² Dr. Andrew Chamberlain, Daniel Zhao and Amanda Stansell, "[Progress on the Gender Pay Gap: 2019](#)," *Glassdoor Economic Research*, Mar. 17, 2019.³ Jasmine Tucker, "[The Wage Gap Has Robbed Women of Their Ability to Weather COVID-19](#)," National Women's Law Center, Mar. 2021.

³ Jasmine Tucker, "[The Wage Gap Has Robbed Women of Their Ability to Weather COVID-19](#)," National Women's Law Center, Mar. 2021.

Despite having similar qualifications, data shows that women, people of color, LGBTQ+ individuals, and people with disabilities earn lower wages than their straight, white, non-disabled, and male counterparts in the workplace. A 2020 report by the Bureau of Labor Statistics indicates that, on average, women of all races and ethnicities earned 83 cents for every \$1 earned by men.⁴ Additionally, men are also more likely to receive equity shares as compensation than women due to employer biases where men are perceived “as more capable in work settings than women and... [as] more important to retain in a company.”⁵ Studies also show that gender wage disparities are greater for women of color. A 2018 report on the gender pay gap concluded that for every dollar made by white men, Black women make 62 cents, Latinas make 54 cents, Asian women make 89 cents, Native Hawaiian and Pacific Islander women make 61 cents, and Alaska Native and American Indian women make 57 cents.⁶ Similarly for LGBTQ+ individuals, the Williams Institute has noted that, gay and bisexual men earn 10 percent to 32 percent less than similarly qualified heterosexual men, even when controlling for factors such as race, education, job function, and years of work experience.⁷ A study by the American Research Institute reveals a similar wage gap for people with disabilities, noting that they earn “on average 37 percent less than non-disabled people, and the pay gap actually increases with higher education attainment.”⁸

Although some studies indicate marginal improvements in compensation gaps over the last few decades, other data demonstrates that most individuals currently experiencing compensation disparity may not see that gap closed in their lifetime. According to the New York Times, “in [the past] 25 years, the pay gap has shrunk by just 8 cents.”⁹ The article also cited data that showed an increase in a woman’s earnings from 74 cents in 1996 to 82 cents in 2021 for every dollar earned by a man.¹⁰ CNBC recently cited a comparison of wage gaps by the National Women’s Law Center which indicates that for Asian women, the wage gap actually increased by three cents on the dollar compared to White men between 2018 and 2019.¹¹ The American Association of University Women also projected that White women could expect to see their wage gap close in about 50 years, but Black women and Latinas may have to wait significantly longer—350 and 432 years, respectively— to achieve pay equity with White men.¹² They further noted that these wage gaps exist for women of color because “[they] have not had— nor do they have now—access to the same education and employment opportunities that white people have...[and] are disproportionately working in service, domestic, caregiving and agricultural jobs, which have been systemically undervalued and undercompensated.”¹³

Despite educational achievement by women and people of color, they still earn less than their White male counterparts. Although women comprise approximately 57% of degree holders

⁴ Bureau of Labor Statistics, ["USUAL WEEKLY EARNINGS OF WAGE AND SALARY WORKERS FIRST QUARTER 2021,"](#) news release, Apr. 16, 2021.

⁵ Felice Klein, ["The gender gap no one is seeing — in company equity shares,"](#) *The Print*, Aug. 1, 2020.

⁶ Kevin Miller and Deborah J. Vagins, ["The Simple Truth About the Gender Pay Gap,"](#) American Association of University Women, Fall 2018.

⁷ M.V. Lee Badgett et. al., ["Bias in the Workplace,"](#) UCLA School of Law, June 2007.

⁸ American Institutes for Research, ["AIR Index: The Pay Gap for Workers with Disabilities,"](#) Jan. 21, 2015.

⁹ Francesca Donner and Emma Goldberg, ["In 25 Years, the Pay Gap Has Shrunk by Just 8 Cents,"](#) *New York Times*, Mar. 24, 2021.

¹⁰ *Ibid.*

¹¹ Courtney Connley, ["New Census data reveals no progress has been made on closing the overall gender pay gap,"](#) *CNBC*, Sep. 18, 2020

¹² *Ibid.*

¹³ Kevin Miller and Deborah J. Vagins, ["The Simple Truth About the Gender Pay Gap,"](#) American Association of University Women, Fall 2018.

in the US workforce, women with a bachelor's or graduate degrees earn 71.4% and 69.1%, respectively, compared to similarly educated men.¹⁴ The National Center for Education Statistics concluded that between 2000 and 2016, the rate of bachelor's degrees earned by Black individuals grew by 75%.¹⁵ Despite these educational gains, the Economic Policy Institute concluded that "African Americans are still being paid less than whites at every education level. [While] a college education results in higher wages—both for whites and blacks—it does not eliminate the black-white wage gap."¹⁶

The Cost of Pay Inequality

Compensation inequality in the United States can diminish the country's global economic competitiveness and keep women, and in particular women of color, in poverty, reduce their spending power, and impede their path towards homeownership—all of which are linked to the racial and gender wealth gap.¹⁷ A recent study by Citigroup estimated the US economy suffered a \$12 trillion loss in GDP overall due to the compensation gap and potentially lost \$2.7 trillion annually due to the black wage gap since 2000.¹⁸ Fast Company reported in March 2021 that "closing the gender pay gap is a \$512 billion economic opportunity that would lift 50% more working women out of poverty."¹⁹ An October 2019 Urban Institute report concluded that income was one of three key factors contributing to the gap in homeownership between Black and White households in metropolitan areas.²⁰ The same report noted that "the \$38,183 median household income of black households is substantially lower than the \$61,363 median household income of white households."²¹ While holding other factors constant, they concluded that if the household income was the same for Black and White households, the Black-White homeownership gap in metropolitan areas would drop by 31 percent.²²

Compensation inequity may also lead to higher attrition rates and litigation risks for organizations. A 2019 Jobvite survey found that 19 percent of departing employees cited pay inequity as a key factor in their departure, even though 66 percent of employers identified retention as a major concern.²³ According to SHRM, "employee attrition costs an employer about one-third of that employee's base pay."²⁴ Also according to SHRM, companies that do not address pay inequities may also subject themselves to increased litigation by employees filing claims of pay discrimination, even if it occurred years earlier.²⁵

¹⁴ National Center for Education Statistics, "[Table 318.10. Degrees conferred by postsecondary institutions, by level of degree and sex of student: Selected years, 1869-70 through 2026-27](#)," *Digest of Education Statistics*.

¹⁵ National Center for Education Statistics, "[Fast Facts: Degrees conferred by race and sex](#)," accessed Apr. 22, 2021.

¹⁶ Valerie Wilson, "[African Americans are paid less than whites at every education level](#)," Economic Policy Institute, Oct. 4, 2016.

¹⁷ Niall McCarthy, "[Wage Gaps Are Costing The U.S. Economy Trillions Of Dollars](#)," Sep. 2020.

¹⁸ Dana M. Peterson and Catherine L. Mann, "[CLOSING THE RACIAL INEQUALITY GAPS: The Economic Cost of Black Inequality in the U.S.](#)," *Citi GPS: Global Perspectives*, Sep. 2020.

¹⁹ Katica Roy, "[The gender wage gap costs taxpayers billions of dollars every year. This is how to fix it](#)," *Fast Company*, Mar. 10, 2021.

²⁰ Jung Hyun Choi, et. al., "[Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets](#)," Urban Institute, Oct. 10, 2019

²¹ *Ibid.*

²² *Ibid.*

²³ See Jen Dewar, "[Is Compensation to Blame for Your High Employee Turnover Rate?](#)," Compaas, May 7, 2019, and Payscale, "[2021 COMPENSATION BEST PRACTICES REPORT](#)," accessed Apr. 9, 2021.

²⁴ Theresa Agovino, "[To Have and to Hold](#)," SHRM, Feb. 23, 2010.

²⁵ Society for Human Resource Management, "[Managing Pay Equity](#)," Jun. 6, 2020.

Employment and Pay Disparity Impacts for Women of Color During the COVID-19 Pandemic

The COVID-19 pandemic has exacerbated employment and income inequality historically experienced by women of color.²⁶ According to the Century Foundation, women and people of color are overrepresented in key sectors of the economy such as hospitality, healthcare and service roles, which are paid lower wages and are least likely to rebound in the slow pandemic recovery.²⁷ A National Women’s Law Center report commented that women’s jobs were nearly twice as likely as men’s to be vulnerable to the impact of this pandemic.²⁸ They also noted that since the onset of the pandemic, women have lost over 5 million jobs, and account for 53.6 percent of overall net job losses.²⁹ A March 2021 study by McKinsey found working mothers, women in senior management positions, and Black women, in particular, are leaving the workforce at a higher rate than their White and male counterparts during this pandemic.³⁰

Compensation Equity Solutions

Advocates and workplace management organizations have suggested that employers take the following steps to build compensation equity into their culture, policies, and practices towards a more equitable and inclusive workplace.³¹

1. **Conduct pay equity audits and adjust salaries and wages to remove inequities.** According to SHRM, the goal of a pay equity audit “is to develop a statistical regression model that provides an understanding of a company’s pay structure and can explain differences in pay among comparable employees.”³² Glassdoor recommends that employers compare pay data among different demographic categories and adjust for factors such as education, years of experience, and job roles.³³ However, Glassdoor advises that employers should beware of unintended bias in reviewing pay equity data that has not been adjusted for unobservable, personal traits—including race, ethnicity, marital and parental status — “which are known to have a large effect on gender pay differences.”³⁴ After analyzing the data, Skadden advises that employers should take “appropriate remediation of any indefensible pay gaps or a commitment to resolving systemic problems, can mitigate these concerns.”³⁵

²⁶ See Valerie Wilson, “[Inequities exposed: How COVID-19 widened racial inequities in education, health, and the workforce.](#)” Jun. 22, 2020 and Centers for Disease Control, “[Risk for COVID-19 Infection, Hospitalization, and Death By Race/Ethnicity.](#)” Apr. 16, 2020.

²⁷ Amanda Novello, “[Looming Unemployment Cliff Will Hit Women and People of Color the Hardest.](#)” The Century Foundation, Dec. 11, 2020.

Allana Akhtar, “[Meet the 'K-shaped' recession, where professional workers are largely fine and everyone else is doing awful.](#)” Sep. 30, 2020.

Lynda Laughlin and Megan Wisniewski, “[Unequally Essential: Women and Gender Pay Gap during COVID-19.](#)” Mar. 23, 2021.

²⁸ Claire Ewing-Nelson, “[Nearly 40 Percent of Unemployed Women Have Been Out of Work for 6 Months or Longer.](#)” National Women’s Law Center, Dec. 2020.

²⁹ *Ibid.*

³⁰ Justine Jablonska, “[Seven charts that show COVID-19’s impact on women’s employment.](#)” McKinsey & Company, Mar. 8, 2021.

³¹ See Tamara Lytle, “[Closing the Gender Pay Gap.](#)” *HR Magazine*, Society for Human Resource Management, Jun. 4, 2019, and Lean In, “[Equal Pay Counts: What Companies Can Do.](#)” accessed Apr. 19, 2020.

³² Donald Deere, “[Conduct a Pay Equity Study to Mitigate Litigation Risks.](#)” SHRM, Sep. 7, 2010.

³³ Dr. Andrew Chamberlain, “[Demystifying the Gender Pay Gap: Evidence From Glassdoor Salary Data.](#)” Glassdoor, Mar. 2016.

³⁴ *Ibid.*

³⁵ Karen L. Corman, “[Conducting a Pay Equity Audit.](#)” Skadden, Arps, Slate, Meagher & Flom LLP, 2019.

2. ***Create inclusive opportunities for promotion and higher compensation.*** According to Payscale, "Gender and racial biases can create obstacles to hiring, raises, referrals, promotions, and leadership."³⁶ In a 2019 Diversity and Inclusion Subcommittee hearing on workplace inclusion, several witnesses noted that organizations should take additional steps to promote and retain diverse talent.³⁷ SHRM has also advised that companies should "evaluate the corporate ladder to determine whether there is a disproportionate representation of one gender or ethnicity over another."³⁸
3. ***Public disclosure of compensation gap data.*** SHRM experts³⁹ and Glassdoor⁴⁰ similarly recommend that organizations consider increased transparency by publicly disclosing pay gaps to signal their commitment to equity and to "build employer brand and goodwill with job seekers, customers, and the broader public." A 2020 report by Lean In suggested that when employers are explicit about how compensation is determined, their employees understand what factors are driving their pay.⁴¹ In December 2020, Business Wire reported that some U.S. companies are voluntarily disclosing their median pay gaps on an annual basis, and some shareholders have asked companies for this information in their annual proposals.⁴² In 2020, KMPG also reported that environmental, social and governance (ESG) factors, including gender parity and pay gap transparency, are becoming a priority in decision-making for investors.⁴³
4. ***State efforts to close the gender pay gap.*** Research by the Institute of Women's Policy Research noted that "as of January 2015, the District of Columbia and at least five states—Iowa, Minnesota, Montana, Washington, and West Virginia—have "comparable worth" statutes or regulations for public employees to address the undervaluation of work performed mainly by women. These statutes and regulations require that compensation for work of comparable worth—measured by the skill, effort, responsibility, and working conditions—be equitable."

Legislation

- **H.R. _____, a bill to amend the Dodd-Frank Wall Street Reform and Consumer Protection Act to require certain pay equity audits, and for other purposes.** This bill would require the Offices of Minority and Women Inclusion at the federal financial regulatory agencies to conduct internal pay equity audits every two years and to report those findings to Congress.
- **H.R. _____, a bill to amend the Securities Exchange Act of 1934 to require issuers to report information relating to gender and racial pay equity, and for other purposes.** This bill would require issuers filing to the Securities and Exchange Commission to

³⁶ Payscale, "[The State of the Gender Pay Gap in 2021](#)," accessed Apr. 21, 2021.

³⁷ US Congress. House. Committee on Financial Services, Subcommittee on Diversity and Inclusion. Hearing on "[Promoting Inclusion: Examining the Need for Diversity Practices for America's Changing Workforce](#)." Oct. 17, 2019.

³⁸ Society for Human Resource Management, "[Developing Employee Career Paths and Ladders](#)," accessed Apr. 23, 2021.

³⁹ Tamara Lytle, "[Closing the Gender Pay Gap](#)," HR Magazine, Society for Human Resource Management, Jun. 4, 2019.

⁴⁰ Andrew Chamberlain, "[How to Analyze Your Gender Pay Gap: An Employer's Guide](#)," Glassdoor, Apr. 2017.

⁴¹ Lean In, "[Equal Pay Counts: What Companies Can Do](#)," accessed Apr. 19, 2020.

⁴² "[Arjuna Capital: Adobe Is First U.S. Tech Company to Disclose Median Gender Pay Gap Data](#)," *Business Wire*, Dec. 2, 2020.

⁴³ Eloise Knapton, Madalina Racovitan, and Minaho Shiraishi "[Navigating pay-equity: Do you have the data to manage risk and compliance concerns of a global workforce?](#)" KPMG, accessed Apr. 22, 2021.

conduct an audit on gender and racial pay equity with respect to the compensation of the employees every two years and disclose the results every two years on their Form 10-K.