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5 Steps to Analyze Pay Equity in the Insurance Industry

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5 STEPS TO ANALYZE PAY EQUITY IN THE INSURANCE INDUSTRY

Insurance companies are getting serious about pay equity based on gender and race—and for good reasons. One: it's the law. Two: it's good for business. Three: it's the right thing to do.

The current dialogue around race disparity has also raised the stakes, forcing brands to assess their role in ending systemic racism, including creating a more diverse and inclusive workforce.

However, whether you're talking about race, gender, ethnicity or other elements of diversity, inclusion initiatives won't succeed without ensuring equal footing for all employees on the most fundamental element of the job: fair compensation. Pay disparities are both a symptom of and a contributor to inequality.

That's why the best leaders are tackling workplace bias by taking real action: **finding and fixing pay equity issues**.

This ebook will help you learn how.

Making equal pay a brand differentiator and Competitive Advantage

- Gender and ethnic diversity are strongly correlated with profitability. (McKinsey)
- Increasing diversity has a direct effect on the bottom line: companies that have more diverse management teams see 19% higher revenue because of innovation. (BCG)
- Fair compensation drives employee engagement and retention.

THE GOAL:

Equal Pay for Equal Work

You've probably heard the oft quoted statistic that women earn 81.6 cents for every dollar earned by a man. It's worse in the insurance industry, Women earn 62 cents on the dollar for every dollar earned by a man—a larger gap than it was in 1951.

This pay gap compares the average pay of all working men to all working women. It tells us that women don't rise to high-level jobs at the same rate as men, which is reflected in representation in senior roles. According to Women in Insurance: Leading to Action, women hold 11% of named executive officer positions and 19% of board seats at insurance companies. While a pay gap reveals an opportunity gap -- that is, the gap in distribution in higher level jobs -- it doesn't represent equal pay for equal work.

That's where pay equity comes in. Pay equity is the concept that all individuals performing substantially similar work receive equal or similar pay for their work. It is driven by legislation, including The Equal Pay Act of 1963, 44 state-based equal pay laws based on gender, and 9 state-based equal pay laws based on race. Put succinctly, pay differences are fine, so long as they are for a legitimate reason, and not because of gender, race, or ethnicity.

→ **Pay Gap:** compares the average pay between two groups, such as all working men and all working women, or all white workers and all non-white workers.

→ **Pay Equity:** compares the pay of individuals in two groups of people who are doing substantially similar work—in particular, a traditionally advantaged group (white employees) to a minority group (Black or Hispanic employees.)

→ **Opportunity Gap:** when a group of people, like women or BIPOC (Black, Indigenous, people of color), have not been given the same opportunities to advance and are under-represented in higher paying jobs.

All three contribute to a fair workplace for every employee. For insurance companies serious about starting this journey, start by evaluating your pay equity issues.

5 STEPS TO DETERMINE IF YOU HAVE PAY EQUITY ISSUES

These five steps will enable you to assess whether you have statistically significant pay differences among employees performing similar roles.

#1 Engage internal stakeholders

The first step is to ensure your senior leaders are aligned on the organization's pay equity plan and expectations. They need to be on board, because if you look under the hood and identify the need for a major remediation, you don't want them to be surprised.

Pay equity is a commitment—and potentially sensitive. In addition to getting executive buy-in, enlist support from the following stakeholders to ensure you can execute on both short-term and long-term goals.

- **Legal**—To ensure you're in compliance with your state laws, your legal team will need to be comfortable that the decisions you're making to analyze pay (e.g. groupings of employees, control factors, etc.) are justified and defensible.

- **Compensation**—The end goal of your pay equity analysis is fair pay and that will require adjusting salaries.The compensation team needs to know how they will be involved in this process.

- **Diversity & Inclusion (D&I)**—Remediating pay disparities is one of the strongest actions you can take as an organization to impact diversity and inclusion efforts. The D&I team will be an important partner in areas like adjusting hiring and promotion practices.

#2 Group employees doing substantially similar work

Remember: pay equity is about equal pay for equal (or similar) work. Create groups of employees doing substantially similar work based on:

- **Skill:** experience, ability, education, training required to perform the job

- **Effort:** amount of physical or mental exertion needed to perform the job

- **Responsibility:** degree of accountability or duties required in performing the job

- **Working conditions:** physical surroundings, such as temperature, fumes, ventilation, and hazards

> ***Consider different options right from the start. There is usually more than one possible grouping schema.***

Let's look at Claims Adjusters. Some work from an office, while others need to assess claims in person, and are dealing with fumes while roadside or out in hazardous conditions following a fire or hurricane. Are they substantially similar, or different enough to warrant a separate look? Both groups have the same title, and require the same skill, effort, and responsibility, but their working conditions are different. A situation like this requires custom grouping beyond title.

Compare that to Actuaries and other Analysts. While their roles may focus on different functional areas (Business Analyst vs. Marketing Analyst), all of their work requires processing data while working from a desk. In this case, you'd likely group all of the Actuaries and Analysts together for substantially similar work.

#3 Control for job-related factors

Once you set your groupings, apply controls: neutral, objective, job-related factors that reflect your compensation practices for setting and determining pay in each of those groups. The key word here is objective.

Use "direct controls"—objective, non-biased data points that directly measure skill, effort, responsibility, or working conditions—such as:

- Hire date (seniority/tenure)
- Location (city, state, facility)
- Educational attainment
- Years of relevant experience (the US Equal Employment Opportunity Commission, or EEOC, considers age a valid proxy for experience, but in jobs where career switchers are common, age doesn't always reflect experience)
- Time in role

Be careful if you're using "indirect controls"—internally-created systems that proxy skill, effort, responsibility, or working conditions—as they can carry bias. Common examples include:

- Performance ratings
- Job level/grade assignments (the EEOC is suspicious of job level as a control)

Investigate baked-in bias. Moving an employee from a Level 1 Underwriter to a Level 2 Underwriter depends on several controls. Is level the product of objective measures such as experience or accomplishing certain goals, or is it a matter of manager discretion or negotiation?

#4 Identify and review protected classes

Pay equity laws at the federal and state levels require that pay is never influenced by race, gender, or ethnicity—known as protected classes. The laws do not merely protect one race, one gender, or certain ethnicities; the laws require that employees are paid without regard to these protected classes. (That means that, with a few exceptions, you don't have to be in a historically disadvantaged group to bring forth a lawsuit.)

Work with your legal counsel to determine which protected categories you want to analyze. This will depend on both location (which state laws apply to your employees) and business goals (how much you want to lean in to pay equity to align with your brand values.)

- ***Analyze gender, race, ethnicity, and add any comparison you have in your HRIS data. Even if you're only planning to remediate pay based on gender, analyzing other categories will give you a sense of where you stand. This also lays the foundation for you to assess intersections of employee identities: for example, Black and Hispanic women are often the lowest paid employees.***
- ***Perform an analysis once a year, but check in quarterly.***

#5 Make final adjustments before allocating budget

If employees are misclassified or if pay practices aren't fully captured with the initial controls, you may be able to update certain individuals or the structure of their work to reach resolution without paying people more via remediation. Often this requires cleaning up or correcting data with the below actions.

- **Find outliers:** Through investigation, you may have individuals who were demoted or joined the company through an acquisition. By applying a direct control to account for this information, you will be able to strengthen your analysis.
- **Move individuals to a more appropriate group:** This is an additional step to fine tune your substantially similar groups and ensure you have an appropriate comparison. Instead of including your Cyber Security employees in your Information Technology group, you may decide to move them to their own group, as their work is substantially different from the rest of the IT roles.
- **Ignore users:** In all organizations there are 'unicorn' roles, where a position does not have others performing substantially similar work. In these instances, it may be appropriate to 'ignore' an individual from analysis. Do this sparingly and only when legally defensible.

It's important to iterate on these steps to make sure you've done the steps correctly (grouped people together accurately, found the right controls, etc.) When you start from an accurate baseline, then you'll be able to easily make adjustments for M&A and other business changes. And using software to automate the process further accelerates the process, allowing you to quickly iterate and make changes to sustain your pay equity.

WHAT DO I DO WITH MY RESULTS?

Once you complete your pay analysis, work with HR and the Compensation team to remediate salaries. It's important to be transparent: communicate the results internally with leadership and employees, and also externally. Effective messaging of your pay equity actions has the power to boost retention, performance, and workplace satisfaction. It can also elevate your employer brand with an expansive audience.

As an organization committed to pay equity, you also need to consider your long-term strategy to prevent pay gaps from reoccurring. Your analysis may uncover policies and practices that can contribute to and perpetuate ongoing inequities, such as:

- Are certain new hires starting with lower pay due to past salaries, bias, etc.?
- Are employees from traditionally disadvantaged groups represented in senior roles?
- Are managers providing equal opportunities for all employees to participate in training?
- Are women, particularly women of color, being penalized because of family obligations that prevent them from a traditional 9-5 schedule?
- Does your organization say it pays for performance, but higher performers aren't actually getting higher salaries?

THE TIME IS NOW TO TACKLE PAY EQUITY

> *"...because of the compounding effects that pay equity issues have over time, it will never be cheaper to fix than it is today. We estimate each year an organization waits to tackle the issue—or tries to tackle it but fails—will increase the cost to the organization by roughly half a million dollars ..."*
>
> Gartner Report: Addressing Pay Equity, 2019

As companies grapple with how to build an inclusive workplace environment and turn the current national dialogue on bias into tangible action, the best leaders are turning to pay equity. Pay equity is not a fad. It is an enduring movement that continues to gather strength.

The #MeToo movement, the Women's National Soccer Team, and many iconic political and business leaders have all brought attention to gender inequity, and awareness around pay equity continues to grow in terms of gender, race, and the intersectionality of both. True equity requires companies to embrace transparency and continuously commit to fair compensation. It's the right choice—for your business, for your brand, and for every employee.

To discuss pay equity in your workplace and learn how pay equity analysis software can support your organization's fair pay journey, contact Syndio for a demo.

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