



**CS28**

# **Geographic Pay Parity: On Why It's Time for Your Organization to Finally Commit to a Meaningful Geographic Pay Differential Program**

# Geographic Pay Parity:

On why it's time for your organization to finally commit to a meaningful geographic pay differential program

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# Google and the Backlash

# Inc.

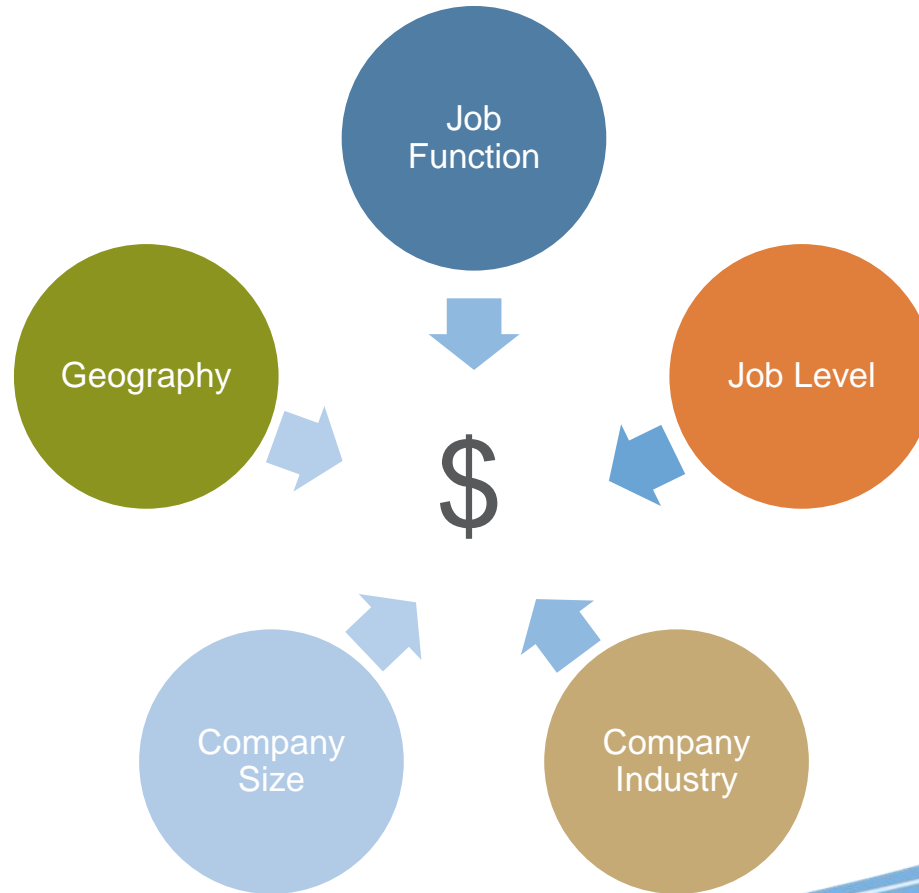
**Why Google's Plan to Cut Remote Worker Pay Is a Bad Idea** This could backfire badly.

AUG 29, 2021



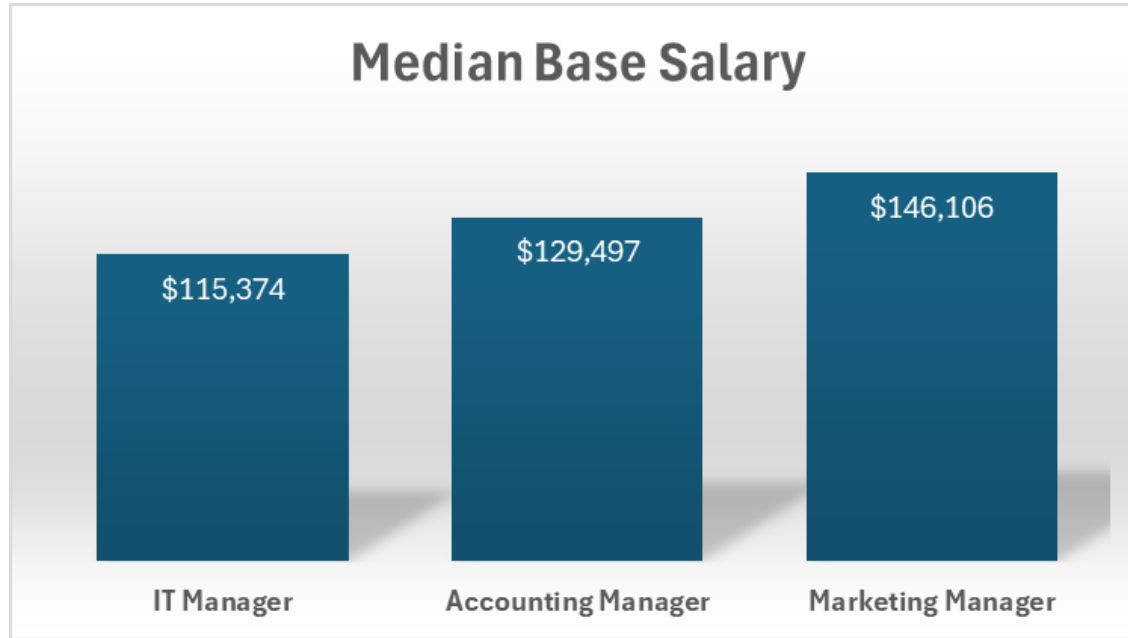
# The Impact of Geographic Location on Pay

One of the Five Influences of Pay



# The Big Five Influences on Pay Level

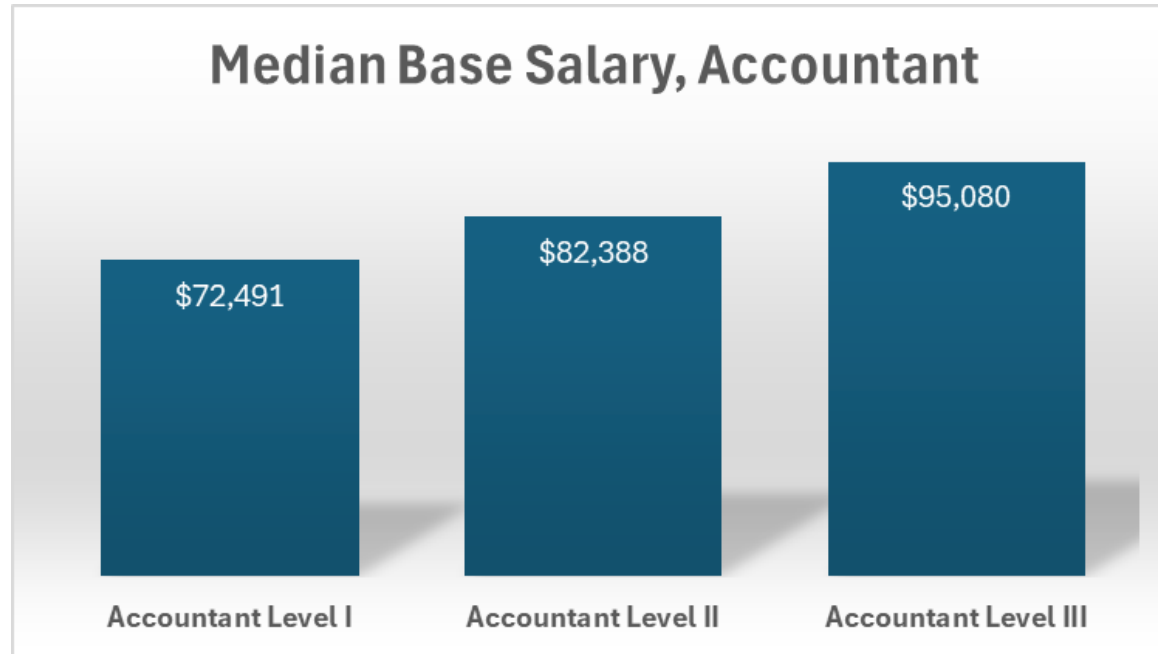
## 1. The *Function* of the Job



The Market values job *functions* differently – and pays accordingly

# The Big Five Influences on Pay Level

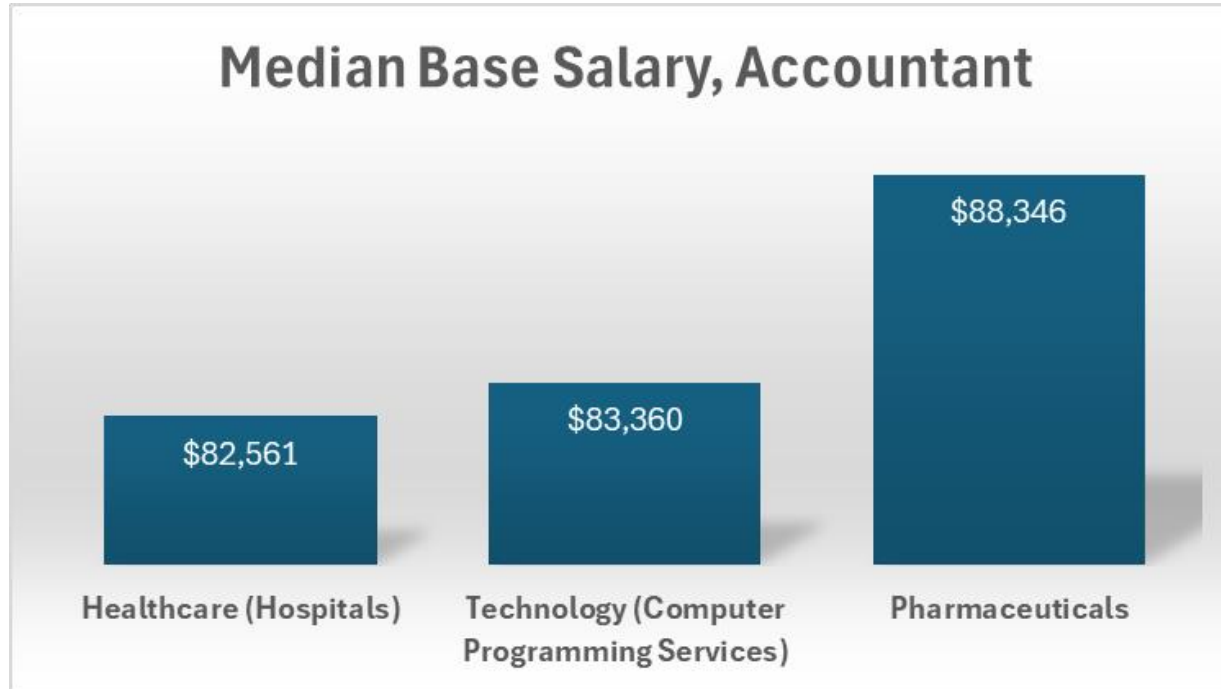
## 2. The *Level* of the Job



Within a specific role, to what degree does the *level of complexity of duties and impact of responsibilities* vary?

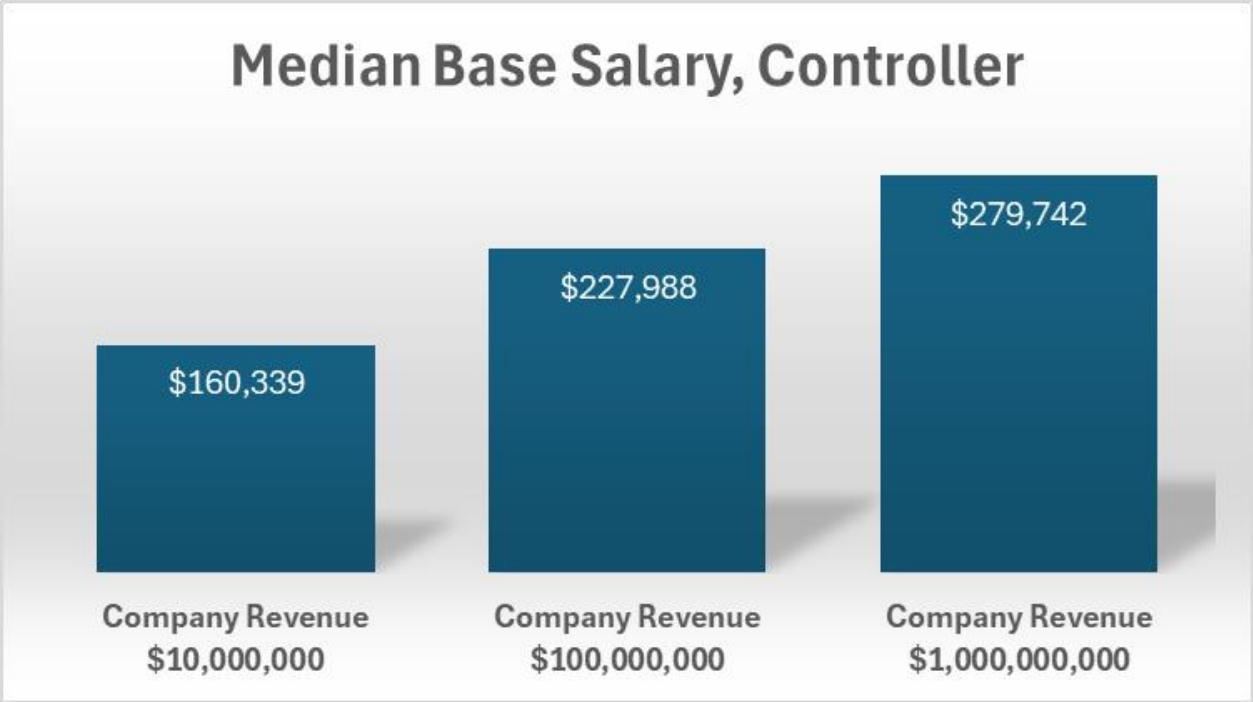
# The Big Five Influences on Pay Level

## 3. The *Industry* the company is in



# The Big Five Influences on Pay Level

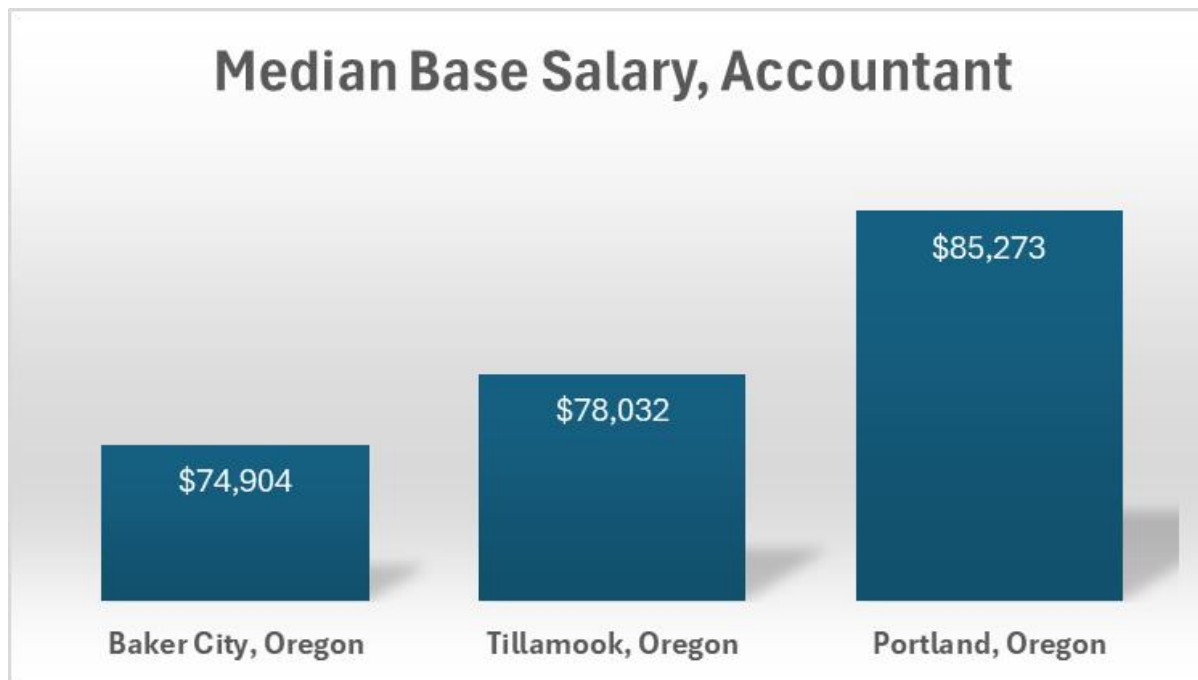
## 4. The Size of the company





# The Big Five Influences on Pay Level

## 5. The *Geographic Location* of the job holder

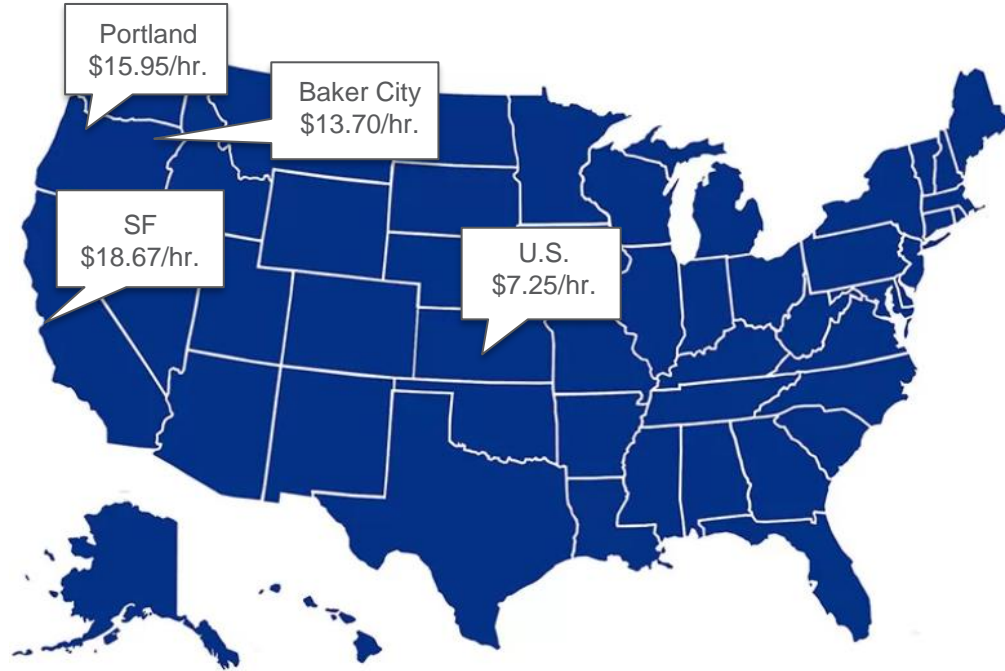


# Geographic Location is a Valid Pay Differentiator

There is ample evidence to indicate that pay levels differ by geographic location and that geography is a valid, legitimate and fair distinguisher of pay

Want more proof?

Look at minimum wage policies -



# Geographic Pay Parity

## A Professional Responsibility

### ***Remunerative Responsibility:***

Geographic pay parity policies discourage *underpaying* employees in high cost-of-wages areas a low cost-of-wages rate

Ex: Paying employees in Portland, OR at a national average rate

# Geographic Pay Parity

## A Professional Responsibility (cont'd)

### ***Fiduciary Responsibility:***

Similarly, geographic pay parity policies discourage *overpaying* employees in low cost-of-wages areas a high cost-of-wages premium rate

Ex: Paying employees in Baker City, OR at a Portland, OR rate

# Geographic Pay Parity

## A Professional Responsibility (cont'd)

### ***Equity Responsibility:***

Geographic pay parity policies lock in an equitable pay program where *each employee is paid a fair rate of pay recognizing the market rate in the employee's geographic region*

Ex: Paying employees in Portland, OR at a rate aligned with the Portland, OR labor market

# Developing & Administering a Geographic Pay Parity Program: 6 Steps to Success

1

Solidify your Base Pay Program

2

Establish your Worksites

3

Grow your Database

# Developing & Administering a Geographic Pay Parity Program: 6 Steps to Success (cont'd)

4

Determine the Differential for Each Worksite

5

What's your Administrative Philosophy?

6

Administrative Guidelines

# 1. Solidify Your Base Pay Program

- Pay Philosophy
  - If you don't have an explicit pay philosophy, write one
  - Make sure that alignment of pay with the local labor market is contained within your pay philosophy
- Competitive labor market analyses should be current, internal job alignment should be updated
- Base salary structure should be up-to-date and reflective of the current market; jobs should be mapped into the correct grades



## 2. Establish Your Worksites and Assign One Worksite as Your Base Site

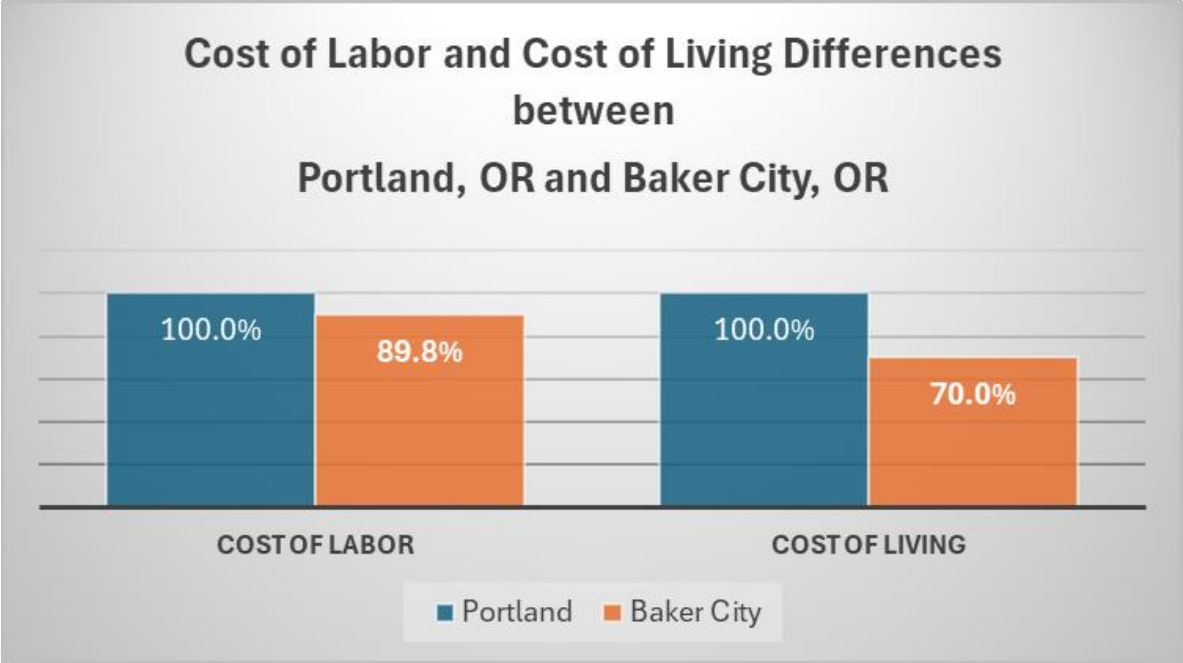
- Where your employee spends the most time working is generally considered their primary worksite
  - 3 days a week in the office? Then the office is their primary worksite.
  - 2 days a week in the office and 3 days at home office working remotely? Then home office is the primary worksite.
- Sales/client facing role, substantial time away from corporate home office and home remote office: Choose either corporate/regional office or home remote office

## 2. Establish Your Worksites and Assign One Worksite as Your Base Site

- Assign one worksite as your base: Generally, your corporate/primary regional headquarters
  - Oregon Health & Science University: Portland
  - Nike: Beaverton

# 3. Establish Your Geographic Differentials Database

Focus should be on Cost of *Labor*, not Cost of *Living*, differences



### 3. Establish Your Geographic Differentials Database (cont'd)

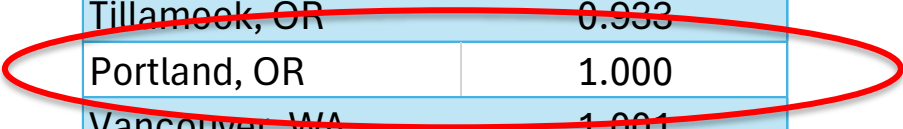
Some legitimate sources of Geographic Differentials include:

Economic Research Institute (ERI)	Contains data for over 6,000 national and international locations
Mercer	Contains data for more than 2,000 U.S. locations
Willis/Towers/Watson	Reports available for multiple U.S. and international locations
Aon/Radford	Geographic differential tool compares compensation differentials and talent availability around the world

# 4. Determine the Geographic Differential for Each Worksite



Worksite	Differential
John Day, OR	0.898
Madras, OR	0.908
Ashland, OR	0.911
Bend, OR	0.928
Tillamook, OR	0.933
Portland, OR	1.000
Vancouver, WA	1.001
Seattle, WA	1.130
Oakland, CA	1.192
San Francisco, CA	1.265



# 5. Determine your Administrative Philosophy for Geographic Differential Structuring

## Six-Tier Structure (10.0%)

Structure	Range	Structure Differential
A	</= .849	0.80
B	.850 -> .900 -> .949	0.90
C	.950 => 1.000 => 1.049	1.00
D	1.05 => 1.100 => 1.149	1.10
E	1.150 => 1.200 => 1.249	1.20
F	>/= 1.25	1.30

Base Site



# 5. Determine your Administrative Philosophy for Geographic Differential Structuring

## Six-Tier Structure (10.0%)

Developing the database: Building out the Structure, Differential, Range, Worksite and Actual Differential

Structure	Structure Differential	Range	Worksite	Actual Differential
Structure B	0.900	.850 => .900 => .949	John Day, OR	0.898
Structure B	0.900	.850 => .900 => .949	Madras, OR	0.908
Structure B	0.900	.850 => .900 => .949	Ashland, OR	0.911
Structure B	0.900	.850 => .900 => .949	Bend, OR	0.928
Structure B	0.900	.850 => .900 => .949	Tillamook, OR	0.933
Structure C	1.000	.950 => 1.000 => 1.049	Portland, OR	1.000
Structure C	1.000	.950 => 1.000 => 1.049	Vancouver, WA	1.001
Structure D	1.200	1.05 => 1.100 => 1.149	Seattle, WA	1.130
Structure E	1.200	1.150 => 1.200 => 1.249	Oakland, CA	1.192
Structure F	1.300	>/= 1.25	San Francisco, CA	1.265

# 5. Determine your Administrative Philosophy for Geographic Differential Structuring

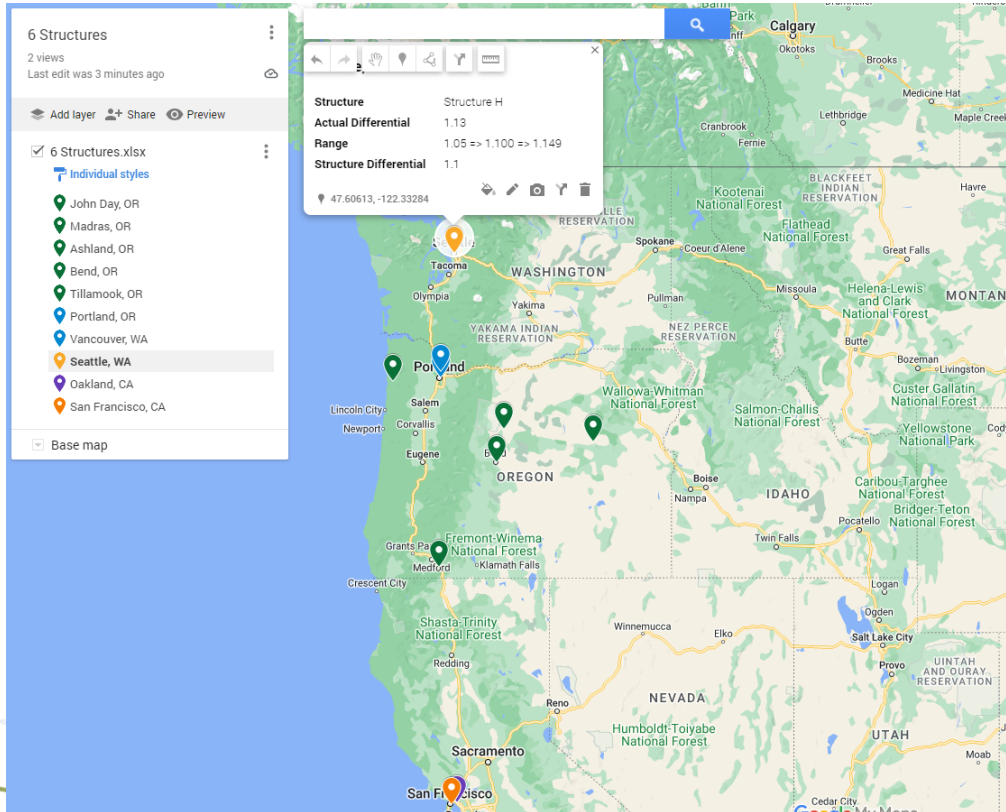
## Six-Tier Structure (10.0%)

Developing the database: Building out the Structure even more, adding in employee data including pay and compa-ratio information (both unadjusted and adjusted)

Employee Name	Worksite	Annual Salary	Job Value, Base Site	Unadjusted Compa-Ratio	Structure	Actual Differential	Range	Structure Differential	Adjusted Job Value	Adjusted Compa-Ratio
Liam Johnson	John Day, OR	\$105,000	\$108,000	0.97	Structure B	0.898	.850 => .900 => .949	0.900	\$97,200	1.08
Ava Martinez	Madras, OR	\$78,000	\$76,000	1.03	Structure B	0.908	.850 => .900 => .949	0.900	\$68,400	1.14
Ethan Brown	Ashland, OR	\$85,000	\$83,000	1.02	Structure B	0.911	.850 => .900 => .949	0.900	\$74,700	1.14
Sophia Davis	Bend, OR	\$62,000	\$68,000	0.91	Structure B	0.928	.850 => .900 => .949	0.900	\$61,200	1.01
Mason Garcia	Tillamook, OR	\$89,000	\$92,000	0.97	Structure B	0.933	.850 => .900 => .949	0.900	\$82,800	1.07
Isabella Wilson	Portland, OR	\$105,000	\$107,000	0.98	Structure C	1.000	.950 => 1.000 => 1.049	1.000	\$107,000	0.98
Noah Anderson	Vancouver, WA	\$108,000	\$110,000	0.98	Structure C	1.001	.950 => 1.000 => 1.049	1.000	\$110,000	0.98
Mia Thomas	Seattle, WA	\$138,000	\$132,000	1.05	Structure D	1.130	1.05 => 1.100 => 1.149	1.200	\$158,400	0.87
Lucas Taylor	Oakland, CA	\$147,000	\$145,000	1.01	Structure E	1.192	1.150 => 1.200 => 1.249	1.200	\$174,000	0.84
Charlotte Lee	San Francisco, CA	\$150,000	\$162,000	0.93	Structure F	1.265	>/= 1.25	1.300	\$210,600	0.71



# 5. Determine your Administrative Philosophy for Geographic Differential Structuring



## Six-Tier Structure (10.0%)

Import your data into Google Maps to create a visual tool for administering your Geographic Pay Parity program

# 5. Determine your Administrative Philosophy for Geographic Differential Structuring

## Structure Philosophy: No Tiers *(one differential per site)*

Worksite	Actual Differential
John Day, OR	0.898
Madras, OR	0.908
Ashland, OR	0.911
Bend, OR	0.928
Tillamook, OR	0.933
Portland, OR	1.000
Vancouver, WA	1.001
Seattle, WA	1.130
Oakland, CA	1.192
San Francisco, CA	1.265

# 5. Determine your Administrative Philosophy for Geographic Differential Structuring

## Structure Philosophy: No Tiers

*(one differential per site)*

Developing the database: Building out the Structure even more, adding in employee data including pay and compa-ratio information (both unadjusted and adjusted)

Employee Name	Worksite	Annual Salary	Job Value, Base Site	Unadjusted Compa-Ratio	Structure	Actual Differential	Range	Structure Differential	Adjusted Job Value	Adjusted Compa-Ratio
Liam Johnson	John Day, OR	\$105,000	\$108,000	0.97	NA	0.898	NA	0.898	\$96,984	1.08
Ava Martinez	Madras, OR	\$78,000	\$76,000	1.03	NA	0.908	NA	0.908	\$69,008	1.13
Ethan Brown	Ashland, OR	\$85,000	\$83,000	1.02	NA	0.911	NA	0.911	\$75,613	1.12
Sophia Davis	Bend, OR	\$62,000	\$68,000	0.91	NA	0.928	NA	0.928	\$63,104	0.98
Mason Garcia	Tillamook, OR	\$89,000	\$92,000	0.97	NA	0.933	NA	0.933	\$85,836	1.04
Isabella Wilson	Portland, OR	\$105,000	\$107,000	0.98	NA	1.000	NA	1.000	\$107,000	0.98
Noah Anderson	Vancouver, WA	\$108,000	\$110,000	0.98	NA	1.001	NA	1.001	\$110,110	0.98
Mia Thomas	Seattle, WA	\$138,000	\$132,000	1.05	NA	1.130	NA	1.130	\$149,160	0.93
Lucas Taylor	Oakland, CA	\$147,000	\$145,000	1.01	NA	1.192	NA	1.192	\$172,840	0.85
Charlotte Lee	San Francisco, CA	\$150,000	\$162,000	0.93	NA	1.265	NA	1.265	\$204,930	0.73

## 5. Determine your Administrative Philosophy for Geographic Differential Structuring

### Compa-Ratio Differences by Philosophy

6 Structure Adjusted Compa-Ratio	No Structure Adjusted Compa-Ratio
1.08	1.08
1.14	1.13
1.14	1.12
1.01	0.98
1.07	1.04
0.98	0.98
0.98	0.98
0.87	0.93
0.84	0.85
0.71	0.73

- In the end, there tend to be minimal differences in adjusted compa-ratios between structures
- Determination of structure should primarily be based on administrative simplicity, optics and communication ease

## 6. Develop Administrative Guidelines

- Document the full Geographic Pay Parity process:
  - Pay Philosophy; emphasis on pay parity
  - Establishment and definition of worksites
  - Establishment of geographic differentials database
  - Assignment of geographic differentials to each worksite
  - Determination of your administrative philosophy for geographic differential structures

## 6. Develop Administrative Guidelines (cont'd)

- Identify movement scenarios and how they will be handled
  - Movement from high wage-cost areas to low wage-cost areas
  - Movement from low wage-cost areas to high wage-cost areas
  - Employee vs. corporate mandated movement
  - Enforcement of back-to-office scenarios
  - Pay particular attention to any scenario that would cause employee adjusted compa-ratios to increase
- Document when geographic differentials will be re-evaluated
- Document how unique scenarios will be reviewed, and by whom



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# Thank you!

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