

2025 TMHRA Annual Conference

Equity in Classification and Compensation

What is it and why does it matter?

May 7, 2025 / TL Cox / Mike Verdoorn

Introductions



TL Cox
Vice President



Mike Verdoorn
Vice President

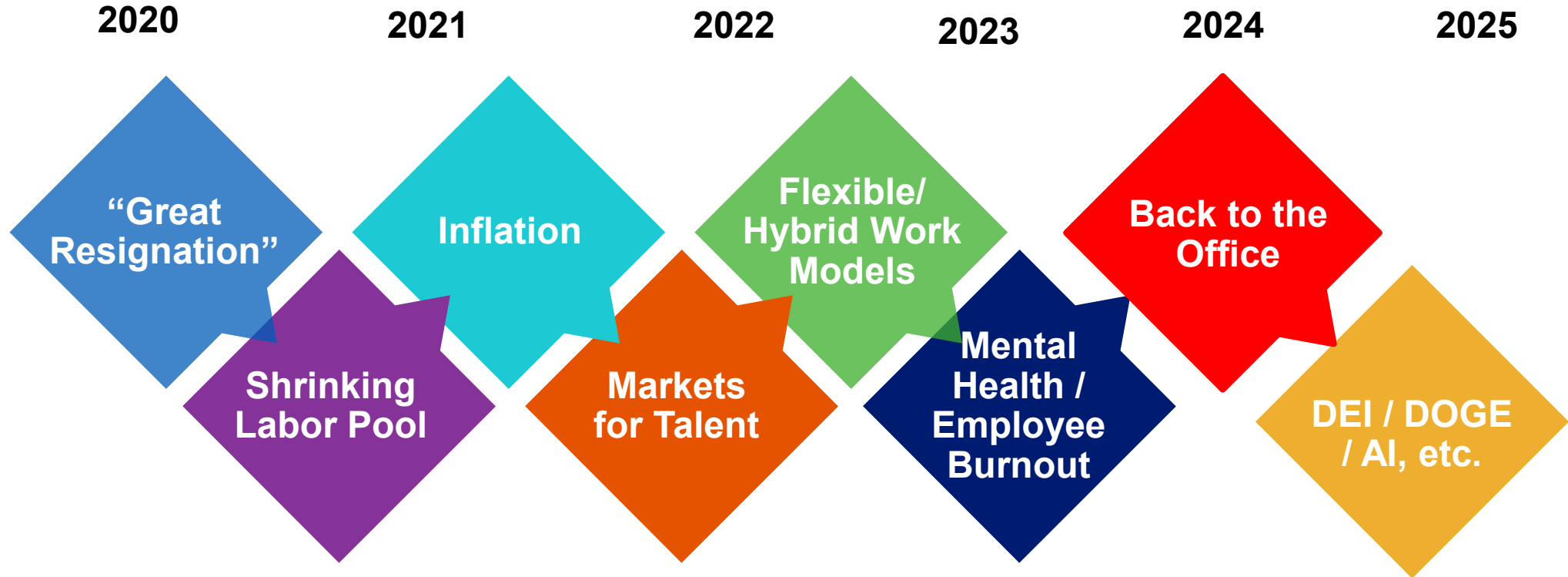
National consulting firm with
1,100+ employees, celebrating
over **80 years of serving clients**

Mission-driven: **Providing trusted
advice that improves lives**

Independent, objective,
and **employee-owned**

Extensive market presence — **in Texas
and nationally**

Today's Environment

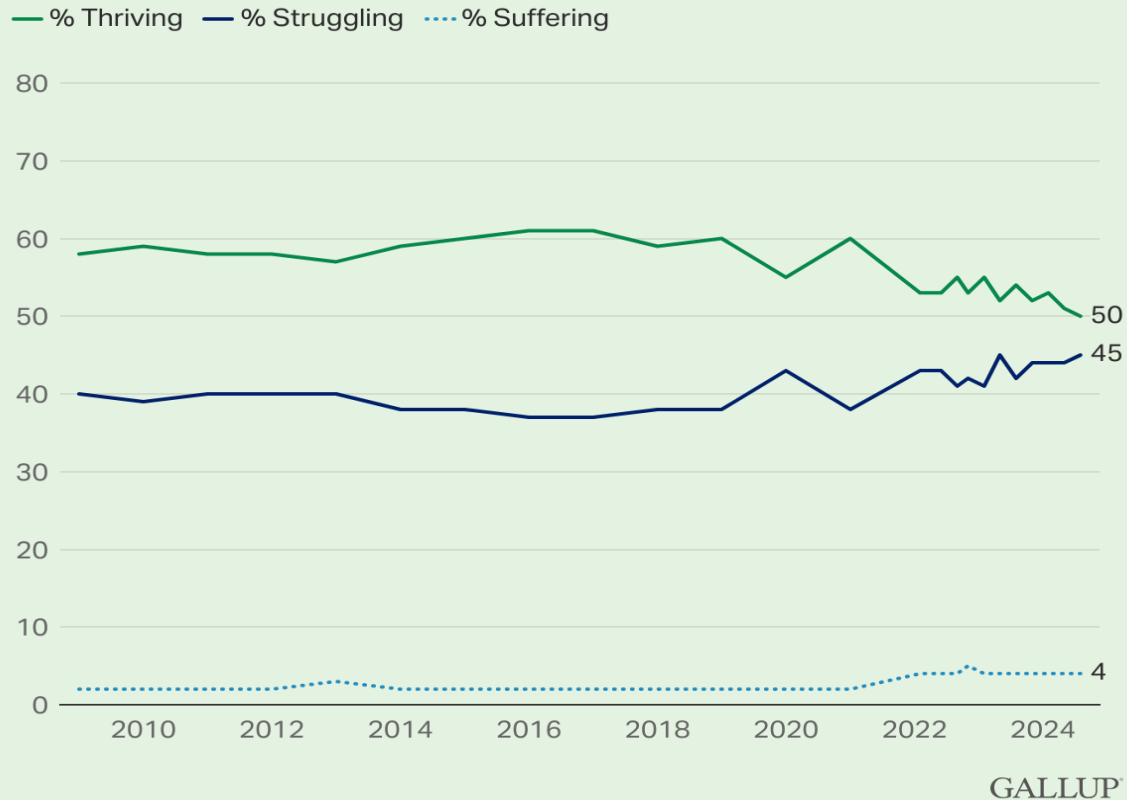


The labor market has been in constant change over the past 5 years, and these conditions have impacted employees and been have been disruptive to employers.

Today's Environment *(continued)*

Trended Life Evaluation of U.S. Employees

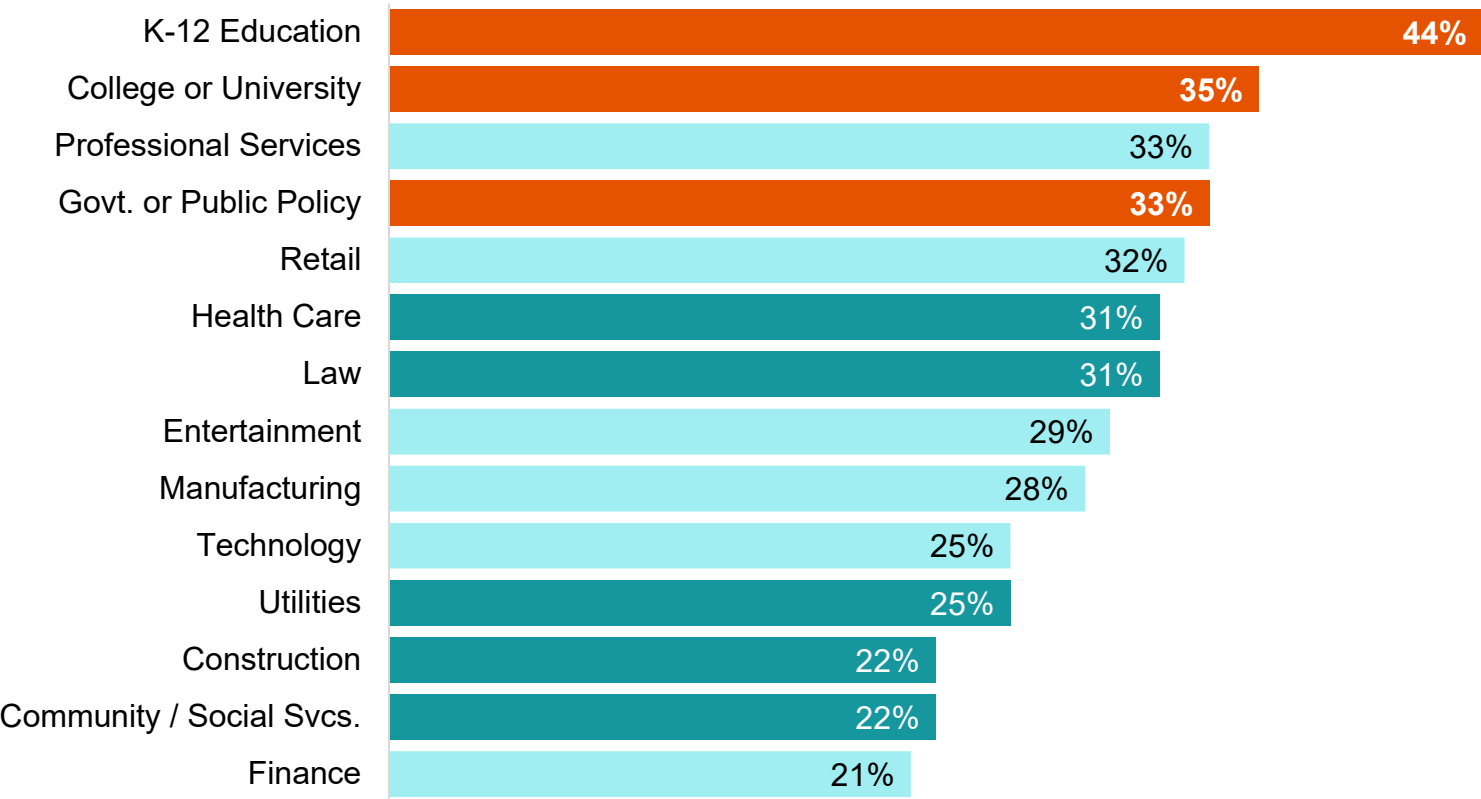
The Life Evaluation Index measures how people rate their current and expected future lives.



- Full-time employees in the United States have been working fewer hours over the past 5 years.
- Those same employees trust their employers less, and feel increasingly detached from their workplaces.
- Overall employee wellbeing is on the decline.

Today's Environment *(continued)*

Percent of US workers who say they feel burned out at work always or very often, by industry



Gallup survey of US full-time workers conducted Feb. 3-14, 2022

Three of the top four industries with the most burnout are in the public sector!

Pay Transparency Legislation

16

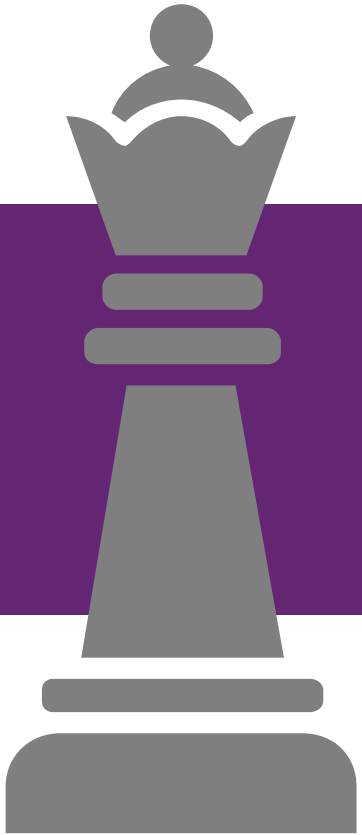
State or local pay transparency laws enacted since 2020

+

14

Pay transparency state laws proposed (and growing)

So what does all of this have to do with pay equity?



Pay equity is about more than just quantifying that similarly situated work is compensated equally.

Types of Pay Equity

Internal/External



Internal

Achieved through documenting, analyzing, and perhaps even evaluating the content of jobs across your agency.



External

Assesses if job classification's pay range is competitive in the market.



Purpose

Ensures jobs are compensated at a level that is consistent internally and competitive with peer agencies (the market).



Outcome

Data-driven insights to help the organization, attract, retain, reward, and grow talent in a quantifiable, objective way.

Individual



Focus

Achieved through one of two methodologies that compares compensation within the same organization.



Explanation

Analyzes whether employees in similar roles or job categories receive equitable compensation, regardless of factors such as gender or race/ethnicity.



Purpose

Ensures employees with similar responsibilities and qualifications receive similar compensation.



Outcome

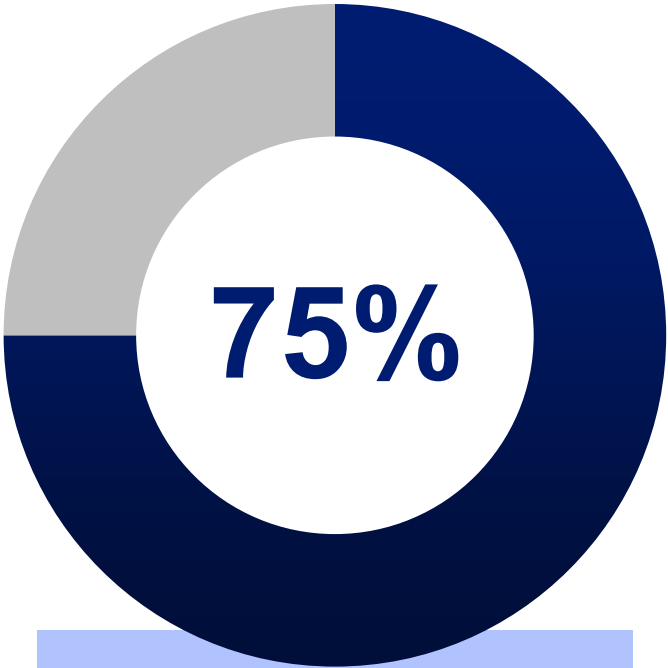
Identification of outliers warranting further discussion as well as a to ensure fairness, compliance with antidiscrimination laws, and alignment with the principles of Diversity, Equity, and Inclusion (DEI).

Impact of Pay Equity

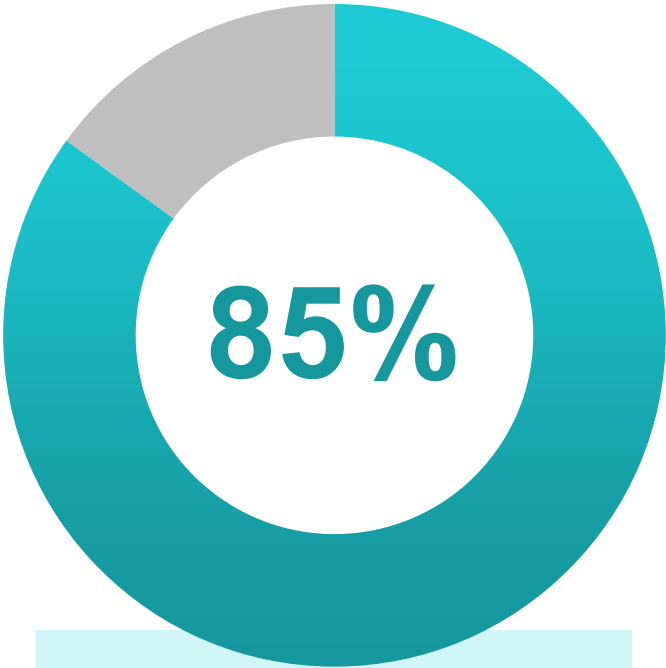
1	2.8X more likely to promote standing and brand
2	3.4X more likely to be engaged
3	3.8X more likely to be resilient
4	2.5X more likely to be strongly connected

“While pay equity has merits in social responsibility, it’s also important to a business’s bottom line. Employers who implement fair pay policies may be able to: prevent discrimination lawsuits, comply with equal pay regulations, improve productivity and morale, reduce workplace turnover, and attract talented new employees.”

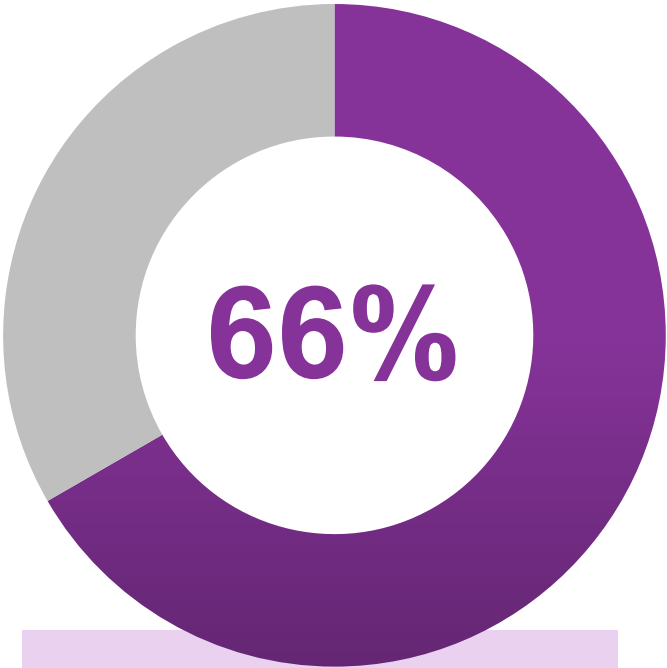
Current Pay Equity Trends



Organizations are conducting a pay equity analysis at least once a year



View ethical considerations as a key factor in deciding to pursue initiatives



View the cost of addressing pay inequities as a potential barrier

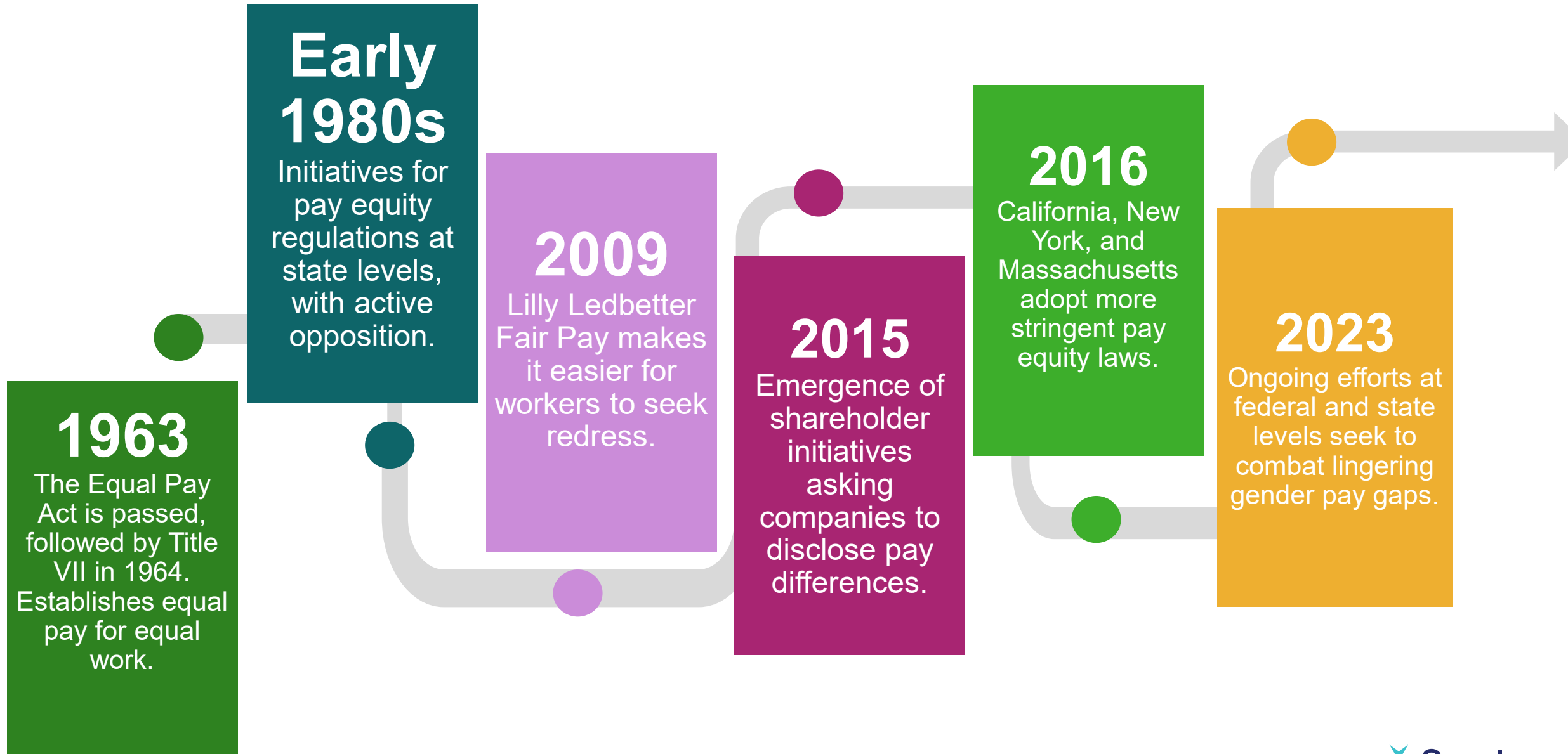
| How to conduct a pay equity study?

What is pay equity?

The is the concept that individuals who perform work of equal value, requiring similar qualifications, skills, effort, responsibility, and working conditions, should receive equal compensation, regardless of gender, race, ethnicity, or other protected characteristics. It seeks to eliminate wage discrimination and ensure that all employees are paid fairly and equitably when determined to be in **similarly situated roles within an organization.**

Pay equity not only involves base salaries but also includes equal opportunity for or access to incentives, benefits, and career growth, promoting fairness in compensation practices.

Pay Equity is Not New



Pay Equity Approach



Assess the current situation – need to understand **where there are issues**



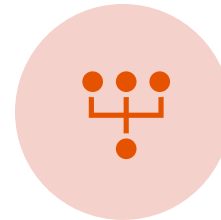
Focus the data – do the general comparison of representation, years, pay – don't overwhelm with detailed specifics yet



Identify broad stakeholders – need the **long-term champions**



Consider a trend analysis – last 5 years – **tells a story**



Start small – pick one or two departments internal to State

Pay Equity Approach *(continued)*

Who is involved and leads a pay equity study?

- Organizational Leadership
- Human Resources – typically leads
- Council/Union – typically provides advisory or information only
- Legal – serves as a contact for consultant

Conducted internally or externally?

- Accountability
- Neutral approach

Methodologies to analyze pay?

- Not one method fits all – combine methods to perform comprehensive analysis
- Comply with EEOC methods and requirements
- Conduct average/median pay comparisons (gender, race, age)
- Utilize statistical techniques (e.g. regression)

Pay Equity Methodologies

Descriptive Statistics

- Highlight areas with potential disparities that you may want to examine further
- Does not determine if there are systemic pay issues
- Typically better suited for organizations with a small employee population

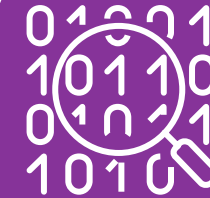


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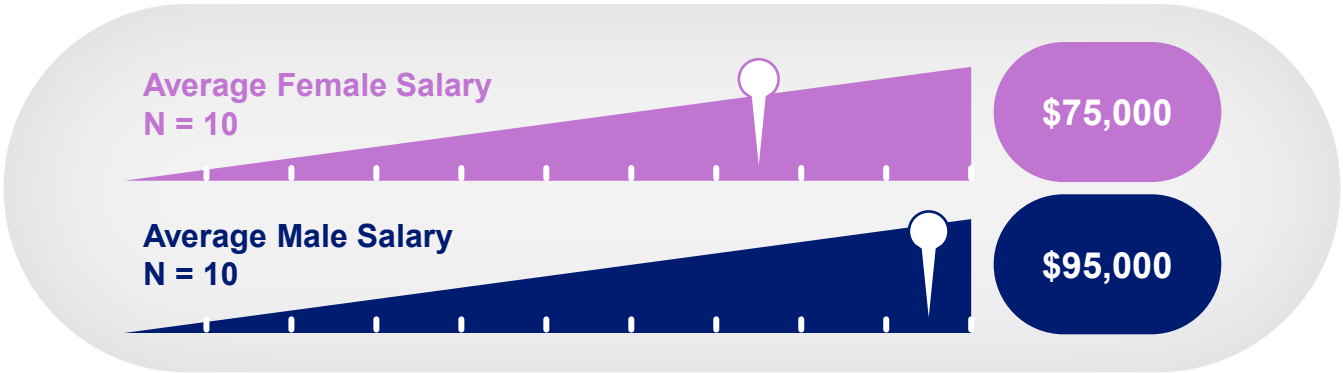
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Regression Analysis

- Statistically controls for various factors that can influence compensation, such as experience, education, and job responsibilities
- Can determine unexplained wage disparities that might indicate discrimination based on factors like gender or race (helps identify systemic pay issues)



Case Study: Descriptive Statistics



Descriptive Statistics, by Level

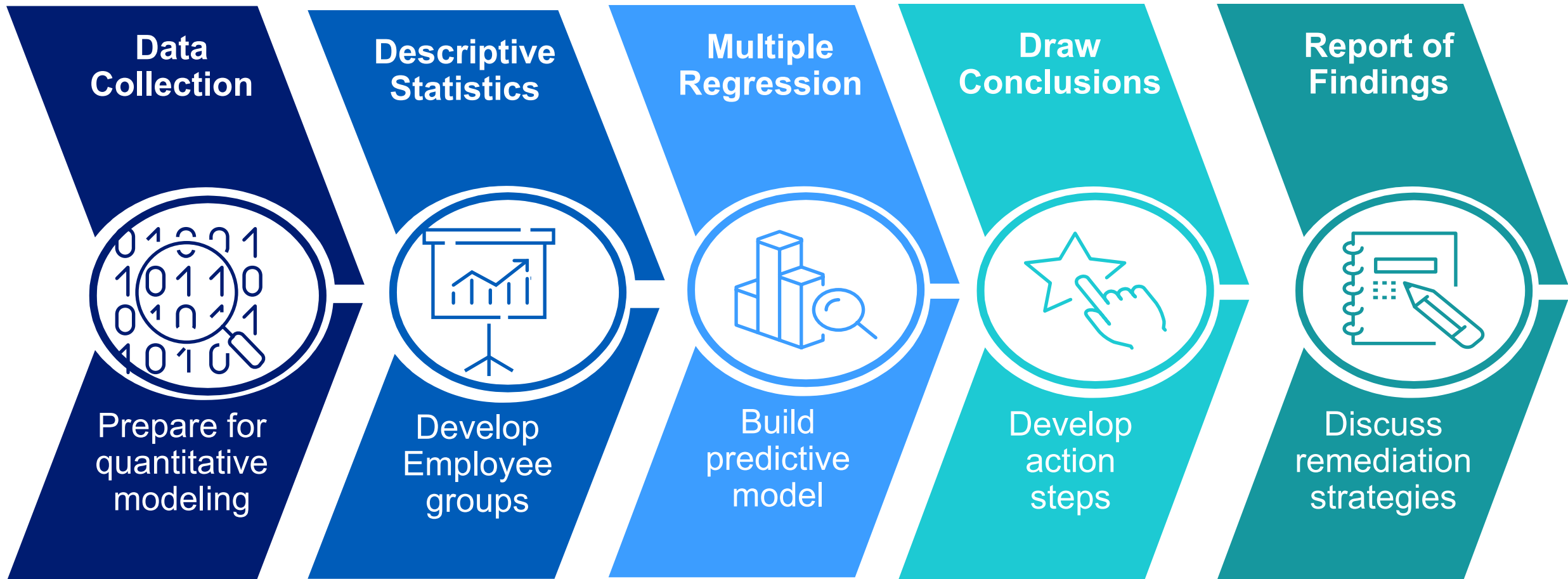
Level	Count	Actual Salary	Gender Representation	
Executive	4	\$150,000	25%	75%
Managerial/Supervisory	6	\$100,000	50%	50%
Professional	10	\$50,000	60%	40%

■ Female ■ Male

It is possible to achieve 100% pay equity but have unequal representation.

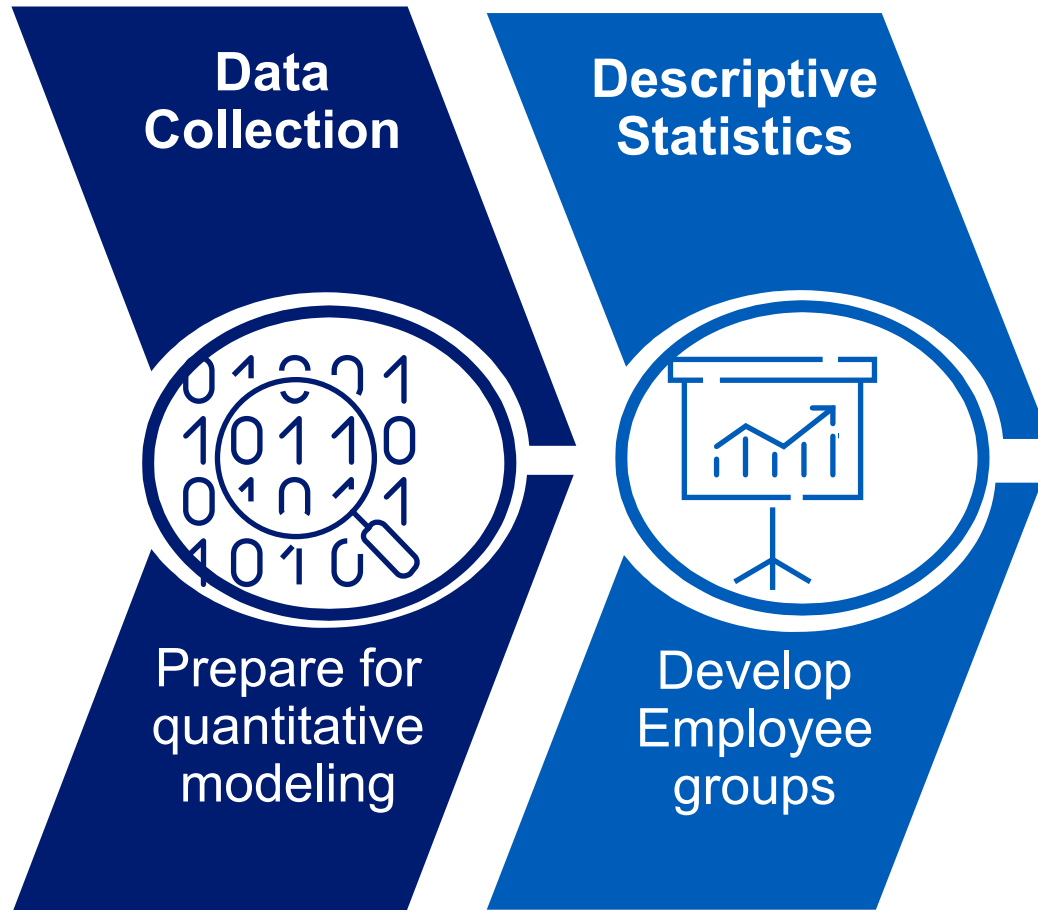
How to Conduct a Pay Equity Analysis

Pay Equity Analysis Framework



How to Conduct a Pay Equity Analysis

(continued)



- Collect both qualitative and quantitative data:
 - **Qualitative Data:** Conduct interviews to understand how and what information is used in make pay decisions.
 - **Quantitative Data:** Include categorical, discrete, and continuous variables.
- Determine appropriate number and types of employee groupings.
- Identify initial pay gaps within each group, considering a variety of variables.
- Determine data transformations necessary for more rigorous modeling.

How to Conduct a Pay Equity Analysis

(continued)

Data Preparation and Collection

In preparation for the analysis, the following data items need to be gathered.

Typical Employee Data

- | | |
|-------------------|-----------------------|
| • Employee ID | • Hire Date |
| • Name | • FLSA status |
| • Gender | • EEO Title |
| • Ethnicity | • Department/Function |
| • Job Title | • FTE |
| • Date of Birth | • Salary Grade |
| • Terminal Degree | • Market Data Median |
| • Year of Degree | • Compensation |

Once all available data are gathered, the analyst conducts a rigorous “scrubbing” process to check for items such as duplicates, missing values, inconsistencies, outliers, etc.

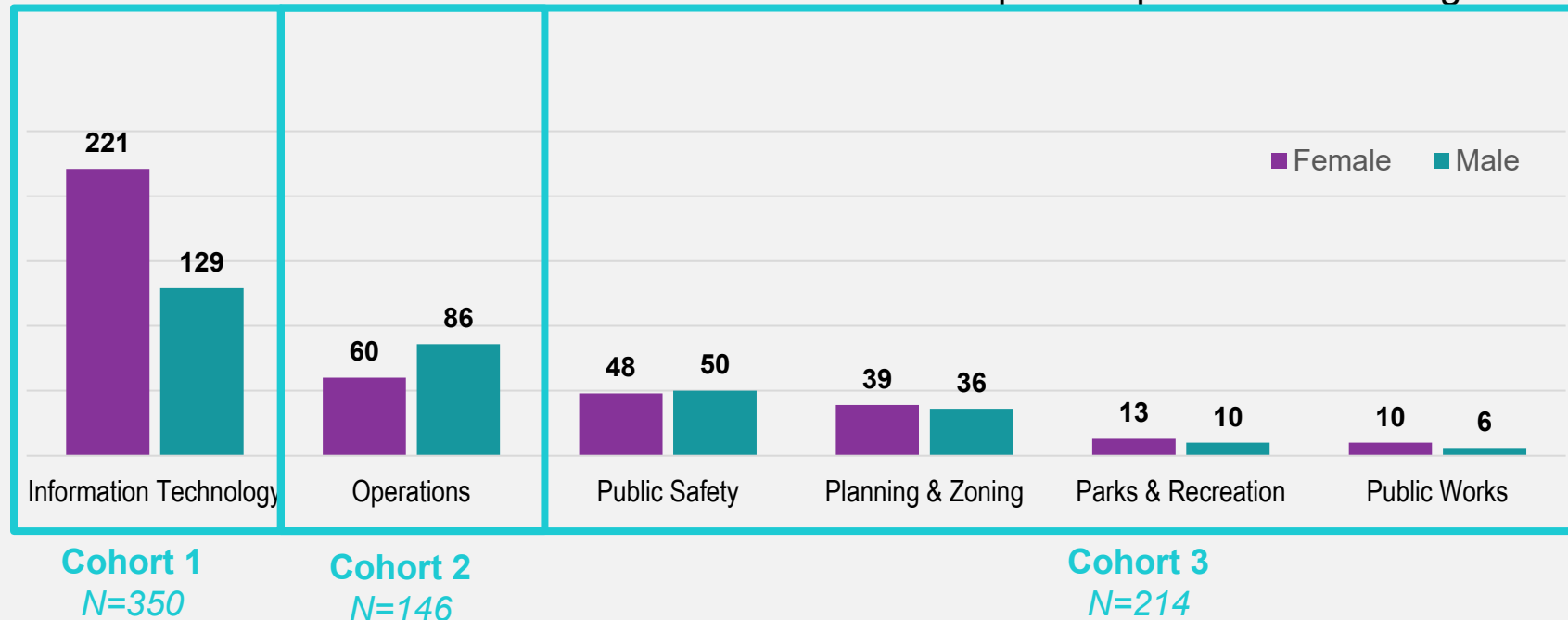
How to Conduct a Pay Equity Analysis

(continued)

Workforce Segmentation/Job Groups

If necessary, split employee populations into smaller groups of employees (“cohorts”) to allow for a more relevant regression analysis rather than analyzing all employees at once.

Each cohort contains at least 100 incumbents to ensure an ample sample size for the regression analysis.

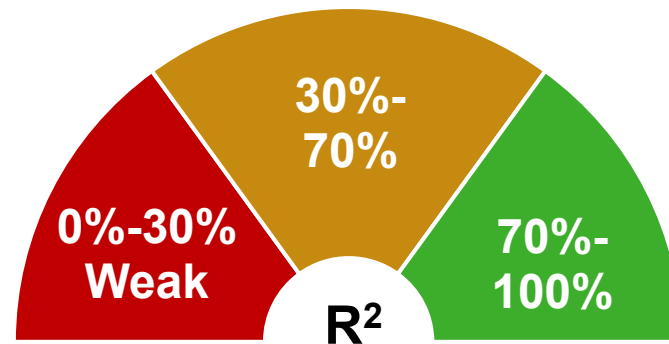


How to Conduct a Pay Equity Analysis

(continued)



- Identify variables that have the largest influence on pay differentiation, while accounting for multiple factors.
- Determine significant differences across groups while controlling for effects of other significant variables.
- Develop a predictive model based on the primary drivers of pay.
- Conventional standards used to measure explanatory power (**R²**) and variable significance (**p-value**).

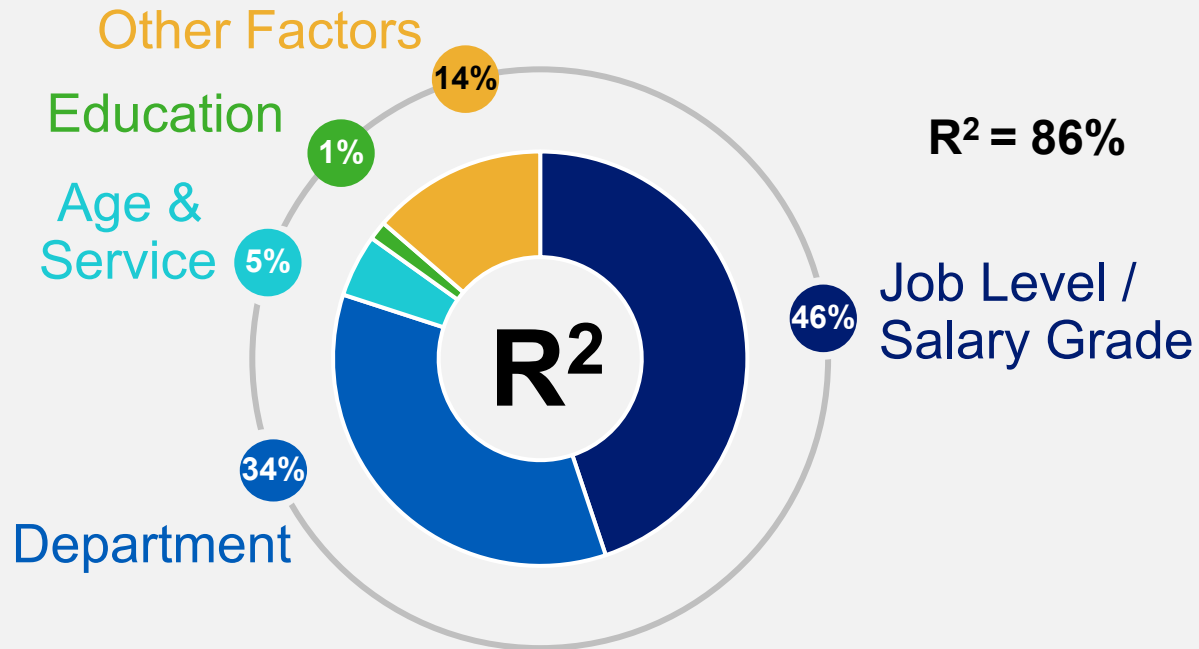


p-Value	Presumption
< 0.01	Very strong
0.01 to 0.05	Strong
0.05 to 0.10	Low
> 0.10	None

How to Conduct a Pay Equity Analysis

(continued)

Pay Equity Assessment *continued*



$R^2 = 86\%$

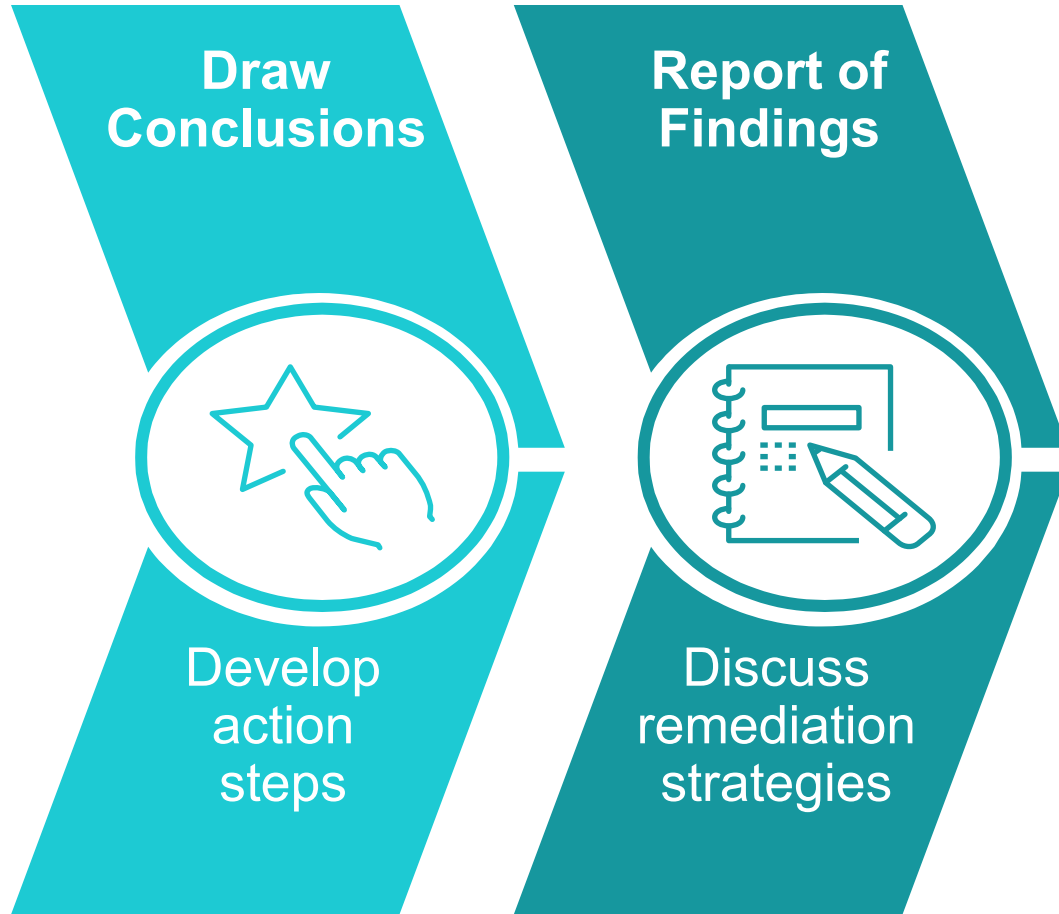
Job Level /
Salary Grade

Illustrative

- The predicted tenure-track model provides an overall R^2 value of **86%** for ABC Corporation. This suggests that the set of predictor variables does a strong job estimating the variance in tenure-track faculty salaries overall
- Job Level/Salary Grade and Department are the most significant factors influencing pay
- Neither gender nor race/ethnicity were noted as statistically significant variables on the overall population

How to Conduct a Pay Equity Analysis

(continued)



- Determine the extent to which there is systemic pay inequity potentially stemming from a gender or race/ethnicity bias.
- Compare actual pay to expected pay for each employee and provide a list of individual outliers.
- Calculate associated costs necessary to remediate any issues under various remediation strategy alternatives.

How to Conduct a Pay Equity Analysis

(continued)

Recommendation and Remediation Strategy

Following the pay equity analysis, recommendations may be made to conduct additional review and ultimately make decisions in the following two areas:

1. Individual Outliers

- Determine extent of pay adjustments for low outliers and potential freezes for high outliers
- Decide on the timeframe of any pay adjustments (e.g. immediately vs. in the next 2 years)

2. Representation and/or Opportunity Gap

- Review policies and procedures at various points of the equitable opportunity cycle (see next page)
- Determine if any policies pertaining to hiring, training, performance evaluations and promotions need to be amended to allow for a fairer opportunity between female and male employees

How to Conduct a Pay Equity Analysis

(continued)

Recommendation and Remediation Strategy *continued*



Committing to Pay Equity

Short-term

Close Internal
Equity Pay Gaps

Plan for
the Future

Communicate

Long-term

Hiring
Practices

Pay
Administration

Culture



TL Cox

Vice President

tcx@segalco.com

469.594.4664

Mike Verdoorn

Vice President

mverdoorn@segalco.com

612.477.4331

Thank You