

Evaluation of Compensation Data Collected Through the EEO-1 Form

Using EEO-1 Pay Data to Measure Compensation

For 2017 and 2018, the U.S. Equal Employment Opportunity Commission (EEOC) expanded its annual survey to collect pay data from private employers and federal contractors (meeting certain criteria) as part of its authority under the Equal Pay Act of 1963. EEOC stated its plan was to use the data (known as Component 2) for initial staff investigations of worker complaints, to be followed by more detailed data collections from employers as needed. EEOC asked the National Academies of Sciences, Engineering, and Medicine to convene a panel to examine the quality of the data for these purposes. This issue brief presents the panel's conclusions and recommendations regarding the quality of EEO-1 pay data to measure compensation.

FINDINGS

To carry out its task, the panel first considered the definition of pay used for the EEO-1 form. Pay is defined as wages recorded in Box 1 of the IRS W-2 form for employees: it includes all taxable wages, tips, and other compensation that the employer paid to the employee during the year. This concept of pay is well understood by employers and included in human resource information systems, so it is easily reported. However, it does not capture employees' total compensation.

W-2 Box 1 Does Not Reflect Total Compensation

The panel noted that a recent court ruling found that the definition of compensation in the Equal Pay Act

indicates that total compensation should be considered. This makes Box 5 on the W-2 form a better measure as it includes compensation that is not taxable under federal rules, such as earnings that contribute to medical insurance and retirement accounts and elective deferrals. Since the data for Box 5 are already computed by firms, requesting those data would not impose a new burden on employers.

The Current Pay Bands Are Too Wide

Another element of the quality of pay data that the panel examined is the use of pay bands. The EEO-1 uses 12 pay bands for employers' reports (which may be inflation-adjusted over time). EEOC chose this method to make the form easy for respondents to complete and to protect employers' privacy because exact pay is not reported. The panel found that the pay bands can be used to capture large pay differences by sex and race/ethnicity when there are sufficient numbers of employees to compare. However, the panel concluded that the pay bands are too wide to detect many pay differences. It is an important limitation among employers with few employees to compare; among employers with workers whose pay is narrowly concentrated in a few bands; and for earners in the top category, where there is no maximum and over half of executives fall in that pay band. Figure 1 illustrates how the size of the pay band corresponds with the estimated pay disparities of several groups in comparison with White males.

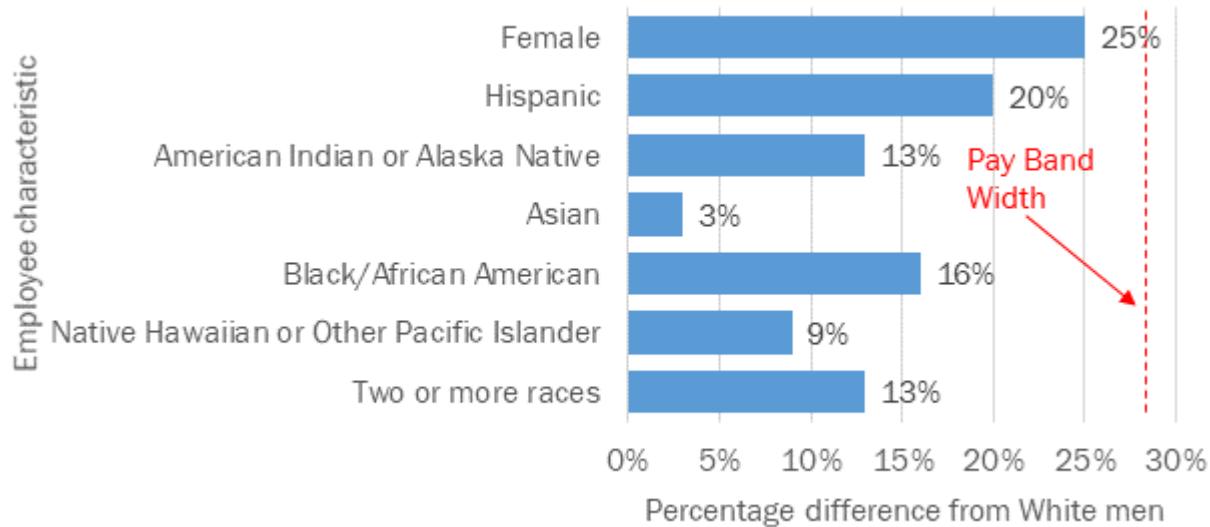


FIGURE 1 Comparison of annual pay differences to size of pay band for selected groups in comparison with White men.

NOTE: Pay band width reflects the ratio of the maximum over the minimum within any pay band, except the top pay band, which has no maximum, and the bottom pay band, with zero as the potential minimum.

SOURCE: Data from 2018 American Community Survey. Figure adapted from Figure 6-6 in panel report Estimates adjust for job category, industry, and state.

Pay Bands Are Not Necessary to Protect Confidentiality

Methods to protect respondent confidentiality are well established, so the use of bands is not needed for that reason.

Pay Bands May Be Burdensome

The panel noted that the EEO-1 form was designed for employers responding in a pre-computer-mediated environment. Collecting individual-level data would better fit the way employers currently structure and submit data. A recent study prepared by the Urban Institute noted that employers completing the EEO-1 pay data forms found reformatting exact pay data into pay bands to be burdensome. In contrast, the U.S. Bureau of Labor Statistics' Occupational Employment and Wage Statistics survey has collected individual pay data from both large and small employers in recent years, and respondents have generally indicated that reporting individual pay data is acceptable (or even preferable) and does not impose a greater burden than reporting pay bands. Additionally, employers routinely report such data already to other federal and state agencies as part of the tax, social security, and unemployment systems.

Individual-Level Pay Data Offer Improved Precision

As shown by Figure 1 above, pay disparities often occur at a magnitude that may be masked when pay bands are used. A reverse type of error also can occur: two

groups of employees on opposite sides of a given pay band boundary may appear to be a full pay band apart even though they actually have highly similar pay rates. Narrowing the pay bands would help to address both issues, but switching to uncategorized individual-level pay data would improve the precision further. Individual-level data also would improve the precision of EEOC's information on pay as it relates to occupations and the number of hours worked.

RECOMMENDATIONS

The panel recommends several possible changes to the current measurement of pay, as well as others detailed in the panel's full report. Implementation of these recommendations also will improve the quality of EEOC data for other purposes. The panel also recommends testing of these proposed changes before large-scale implementation.

EEOC should collect W-2 Box 5 data to measure total compensation, instead of W-2 Box 1 data.

[Recommendation 3-3]

If EEOC continues to collect pay data in bands, narrower pay bands should be adopted, and the number of bands should be expanded for top earners to better capture variation in pay. [Recommendation 3-4]

EEOC should develop, test, and (if found acceptable) implement modifications to the Component 2 instrument to collect individual-level employee pay data, which reflects employers' current reporting practice to state and federal agencies. EEOC's transition to individual-level pay data should be informed by the Occupational Employment and Wage Survey instrument and protocol. Field testing should estimate respondent burden relative to alternative methods and assess confidentiality protections to be applied.

[Recommendation 3-7]

EEOC should strengthen consultation and data sharing with the public, and with federal and state employment data collection agencies. To do so, EEOC could consider joining the Federal Committee on Statistical Methodology's Committee on Data Access and Confidentiality, to discuss modern methods to improve data access while protecting against disclosure. EEOC could consider designating its Office of Enterprise Data and Analytics as a federal statistical unit to collect, report, and protect data in anonymized format for research purposes (including employer self-assessment), while targeted investigations for enforcement purposes proceed as a separate data activity. [Recommendation 8-2]

PANEL ON THE EVALUATE THE QUALITY OF COMPENSATION DATA COLLECTED FROM U.S. EMPLOYERS BY THE U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION THROUGH THE EEO-1 FORM William M. Rodgers III (Chair), Federal Reserve Bank of St. Louis; Paul P. Biemer, RTI International; Lisa Catanzarite, UNITE-LA and Associate of Chamber of Commerce Executives; Siwei Cheng, New York University; Rebecca Dixon, National Employment Law Project; Lisette Garcia, The Pennsylvania State University; Claudia Goldin, Harvard University; Judith K. Hellerstein, University of Maryland; Elizabeth Hirsh, University of British Columbia; M.V. Lee Badgett, University of Massachusetts; Kristen M. Olson, University of Nebraska-Lincoln; Donald Tomaskovic-Devey, University of Massachusetts; Valerie Rawlston Wilson, Economic Policy Institute

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FOR MORE INFORMATION

The Issue Brief was prepared based on the Consensus Study Report *Evaluation of Compensation Data Collected Through the EEO-1 Form* (2022). Copies of the Consensus Study Report are available from the National Academies Press at www.nap.edu. Recordings of the workshops organized by the committee are available on the National Academies website at <https://www.nationalacademies.org/our-work/panel-to-evaluate-the-quality-of-compensation-data-collected-from-us-employers-by-the-equal-employment-opportunity-commission-through-the-eeo-1-form>.

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