FAQ on Dodd-Frank Section 953(b): CEO-to-Worker Pay Ratio Disclosure

What is the SEC proposing to do?

- As required by Section 953(b) of the Dodd-Frank Act, the SEC has proposed rules requiring that publicly traded companies disclose an estimate of their median employee's compensation as a ratio to CEO pay. If adopted, this rule will likely go into effect for the 2015 or 2016 proxy season. The comment period is open through December 2, 2013. Investors can submit comments on the proposed rule (file number S7-07-13) at http://www.sec.gov/rules/proposed.shtml.

Which employees' pay is subject to disclosure?

- As Section 953(b) requires, the SEC's proposed rule includes ***all*** employees of a publicly traded company including the employees of subsidiaries. International employees as well as part-time and seasonal employees are also included. If these classes of employees are excluded, investors would receive an incomplete picture of their company's pay practices. For example, some companies employ a majority of their workers overseas, or as part-time employees.

How do CEO-to-worker pay ratios affect company performance?

- High CEO-to-worker pay ratios can reduce a company's performance. When the CEO receives the lion's share of compensation, employee productivity, morale and loyalty suffer. In contrast, reasonable CEO-to-worker pay ratios send a positive message to the workforce that the contributions of all employees are important to running a successful company. Disclosure of the pay ratio will help investors better understand their company's overall compensation system.

How have CEO-to-worker pay ratios changed over time?

- While investors do not currently have company specific data, average CEO-to-worker pay ratios have been growing in recent decades. In 1980, chief executive officers of large U.S. corporations made, on average, 42 times the pay of a typical worker, according to BusinessWeek magazine. In 2012, the CEO of an S&P 500 company made, on average, 354 times the wages of rank-and-file employees, according to the AFL-CIO's Executive Paywatch website.

How will investors use this pay ratio information?

- CEO-to-worker pay ratios provide a valuable metric for investors to better understand their company's overall compensation strategy for its employees. The ratio will also help put a company's compensation practices for its CEO in perspective. For example, investors will be able to observe how the ratio changes over time, or to compare companies in an industry. This information may be used for say-on-pay votes and for making investment decisions.

Will disclosure of CEO-to-worker pay ratios confuse investors?

- No, investors can be trusted to make informed decisions based on the SEC's proposed rule to require pay ratio disclosure. To help investors better understand CEO-to-worker pay ratios, the SEC's proposed rulemaking encourages companies to voluntarily disclose additional information. For example, while companies must disclose the median pay of all employees, companies with international workforces may also disclose country-specific data.

What is the "best" ratio of CEO-to-worker pay?

- Pay ratio disclosure is not about requiring companies to set CEO pay levels at a particular multiple of worker pay. Rather, the pay ratio disclosure is about giving investors more information about companies' internal compensation practices. CEO-to-worker pay ratios will vary based on industry and company specific situations. Pay ratio disclosure will help investors compare companies to their competitors as well as better understand differences between industries.

Is collecting median employee pay data too costly for companies?

- No, the benefits of disclosure outweigh the costs. To reduce compliance costs, the SEC's proposed rule give companies broad flexibility in how they may identify their median employee for calculating the pay ratio. Companies may use statistical sampling of their workforce to provide an estimate of median employee compensation. Or they may use the salary to identify the median and then calculate the value of other employee benefits received by that employee.

How will disclosure of CEO-to-worker pay ratios affect CEO pay levels?

- Disclosure of CEO-to-worker pay ratios will provide investors with another metric to understand CEO pay levels relative to other employees. At most companies, CEO pay is set based on a peer group analysis of what other CEOs are paid. This peer group analysis can lead to a ratcheting up of CEO pay levels. Disclosure of CEO-to-worker pay ratios will encourage companies to also consider their own internal compensation structure when setting CEO pay.

Who supports and who opposes disclosure of CEO-to-worker pay ratios?

- More than 100,000 individuals and organizations have written the SEC to support pay ratio disclosure. Institutional investors supporting pay ratio disclosure include the California Public Employees' Retirement System, the California State Teachers' Retirement System, the New York City Comptroller, Walden Asset Management, and the Nathan Cummings Foundation. Disclosure is opposed by business groups such as the Business Roundtable, the US Chamber of Commerce, and the HR Policy Association's Center on Executive Compensation.