Pay equity in the advisory industry might seem like a straightforward proposition. It isn't.

Any employee at wealth management firm Bailard can ask CEO **Sonya Mughal** how their pay compares to that of their colleagues.

She'll want to know what the motivation is: Boredom doesn't justify a fishing expedition, she said. But Mughal is all ears should staff have concerns about compensation keeping pace with market rates, or reflecting performance, or being affected by work-life trade-offs.

"Most people don't ask, but they know it's there," she said of the firm's transparent pay policies, which are of a piece with its culture that prizes psychological safety. After all, if people can't ask, they can't advocate for themselves, and if they can't advocate for themselves, they likely aren't trusting management, she explained.

"It's not just a number — 'Here's your salary increase and your bonus,'" Mughal said. Context — provided by the firm's annual all-staff discussion of its financial performance and the ramifications for bonuses — is "incredibly important," she said.

The long-simmering issue of gender and racial pay gaps was thrust into the spotlight in 2015 when actor Patricia Arquette **challenged the entertainment industry** to hold itself accountable for pay equity. Her speech was one factor that propelled the **California Fair Pay Act** into law. It took effect in 2016.

Since then, pay equity has stayed in the national and workplace conversation.

Several states and municipalities have adopted their own pay equity or pay transparency rules for employers within their jurisdictions. ESG reports **tease out factors** that hinder underrepresented workers from salary-boosting career advancement.

Pay equity is rarely out of the headlines. In May, Goldman Sachs paid $215 million to settle a **pay discrimination lawsuit** brought by a class of 2,800 women associates and vice presidents. And earnings fairness is top of mind for consumers. A **survey** released in March by Fidelity found that 62% of women named earnings growth as a top financial concern. The same survey found that 66% of women believe that women need to help resolve the gender wealth gap. Two years ago, Edward Jones paid $34 million to settle a racial discrimination lawsuit that included **structural pay inequities** among other complaints.

Pay equity might seem like a straightforward proposition. It isn't.

Equitable pay for comparable work is an equation complicated by workers' qualifications, career progression, caregiving and workplace culture. Meanwhile, women and ethnic minorities who are, in the aggregate, paid less than white men, now expect employers to proactively ensure that they are paid equitably for comparable work.

Advisory and investment firms of all sizes must translate the big pay equity picture to specific practices and accountability, say consultants and firms who are tackling the issue head-on. At least demonstrating pay equity efforts through reviews, analysis and commensurate adjustments proves good intent. Beyond that, firms can build reputation and credibility by encouraging open pay discussions, showing how managers advocate for equity behind the scenes, and proving that employees are not expected to forgo pay increases for coveted workplace flexibility.

"Asking whether there will be federal legislation is beside the point," said **Tauseef Rahman**, career business leader for northern California and Hawaii at consulting firm Mercer. "There's already a national expectation of pay transparency."

BENCHMARKING BASICS

Analyzing pay equity and gaps isn't simple. Among all advisory positions tracked in *InvestmentNews'* annual Advisor Benchmarking Study, men on average earned a 12% higher base salary and 14% higher total pay (including bonuses and profit distributions).

Much of that, however, can be explained by differences in the roles held by men and women. Women accounted for close to half — 45% — of the lowest-level support advisor roles, where their total take-home pay was actually 5.6% higher on average than men's in the *IN* study.

At the highest-level lead advisor role, average total income for men was 1.2% higher than for women, about $200,400 versus $198,100. But only 27% of the highest-paying roles were held by women, fueling a much larger gender pay gap for advisors as a whole.

The differences within and among pay grades illustrate why compensation experts caution against broad-brush assumptions about pay equity. Structural issues — where women and **ethnic minorities** evaporate from the talent pipeline and thus are underrepresented in the highest-paying jobs — are fundamental to pay gaps.

Assuming equity is dangerous, Rahman said, and audits are essential. "Organizations do find pockets where there are discrepancies," he said. "They look at the root causes that drive it. And they remediate. Then they build in processes and checks to make sure it doesn't happen again."

Bailard benchmarks its compensation against comparable firms, including geographical location, Mughal said, and factors in each employee's skills, experience and education.

Morningstar tackles pay equity head-on in its **annual corporate sustainability report**. In 2021, Morningstar's first internal pay gap analysis resulted in 420 compensation adjustments totaling $1.5 million. Last year, the analysis found 76 gaps that were remediated with $490,000 in adjustments.

CAREER AND CONTEXT

Pay and opportunity transparency give **Longs Peak Advisory Services** a competitive edge, especially as the 14-person firm pursues growth, said Jocelyn Gilligan, a co-founder. Longs Peak offers investment firms tools for tracking and complying with Global Investment Performance Standards.

Gilligan got an unpleasant taste of pay inequity at her very first job, at a major accounting firm. She pressed in hard, earned a review of "exceptional," and yet saw her earnings plateau, with no explanation. "I worked all this hard and got nothing?" she recalled. "That was the beginning of the end for me."

Soon thereafter, she and her husband — an expert in helping investment firms apply Global Investment Performance Standards — realized they could start their own firm and create an equitable workplace from scratch.

"I want to pay people what they're worth. We spend time when we hire people, we want them to feel valued and that they're paid well, and that they have good benefits, so they'll stay with us," Gilligan said. She positions pay in the context of the firm's culture of workplace flexibility and the chance to earn more as promotions are buoyed by firm growth. That long-term perspective attracts women candidates, who want to see how their income will increase sustainably within the firm's flexible framework — instead of settling for plateaued pay as a trade-off for self-directed work time and place.

Gilligan is keenly aware that she sets and perpetuates the firm's pay equity culture. "When people with more visibility and power speak up, it creates permission to say, 'It's OK for me to have that discussion,'" she said of employee empowerment. "It helps young women know that it's OK to ask and as an employer, we need to know that we're treating people fairly. It comes from both directions."

"It's about making sure that women and people of color have genuine opportunities," said **Janell Ahnert**, a shareholder in the financial services practice of law firm **Littler**. Small employers sometimes take false comfort in the notion that their size inoculates them from inequity. "Smaller organizations tend to be more informal in their practices and might not have in place objective criteria like larger organizations," Ahnert said.

Personal relationships are often used to justify enriched offers or bonuses, penalizing employees who are just as productive but who don't have the same connections, she explained. "When you're trying to attract the best of the best, that can lead to these issues [of inequity]. What seems like normal negotiations can become inequities, if one person gets a signing bonus and someone else doesn't ask and doesn't get."

Half of U.S. workers suspect that employees at their workplace are paid inequitably, according to an **XpertHR** study released in May. The same study found that 75% of executives think their organizations pay equitably.

You don't close the pay gap with good intentions alone," said **Margrét Bjarnadóttir**, associate professor at the Robert H. Smith School of Business at the University of Maryland and founder of **Pay Analytics**, a data analysis firm.

Identifying discrepancies is almost the easy part. Centering culture around equity, and using pay as ongoing proof, is where the issue becomes a cornerstone of trust, Bjarnadóttir said.

"It's critical that all employers communicate that they actively manage pay equity," she said. "Then you don't have to worry about people talking about it, and people discovering that they're underpaid. Every compensation decision that you make affects pay equity measures. Especially for smaller employers. We need to manage pay equity like we manage everything else."

Tackling pay equity is really a chance to align compensation with a firm's long-term growth goals, said **Kelly Ann Winget**, who in 2020 founded private equity company **Alternative Wealth Partners**. In the process of dismantling structural barriers that result in inequity, look for chances to financially reward workers who are instrumental in client retention and referrals, she said. One prime example: pairing older male advisors with rising women advisors to enhance the likelihood of retaining both partners in a couple. "Consider the longevity of the portfolio," Winget said, and compensate accordingly.

That strategy is in line with the national trend that pay equity is no longer the sole task of human resources staff, but a **responsibility distributed** among all managers as they keep equity in mind as they build offers, raises and bonuses.

And in an ESG-aware era, don't overlook the potential damage to firm reputation should structural inequities become common knowledge.

"They're moving more money into impact portfolios," Winget said of retail investors. "If they knew that a firm they were working with was keeping Jane at the front desk because she's good at the phone instead of working with clients, I think they'd move their money."