

# **Ethnic and Gender Pay Reporting for Aotearoa / New Zealand**

The Case for Change and Policy Recommendations

December 2021



## Foreword

Many groups of workers in Aotearoa / New Zealand face significant gaps in their pay packets. These gender and ethnic pay gaps are driven in part by discrimination and the behaviours of employers.

Addressing these pay gaps will go some way to promoting a fair, equitable Aotearoa.

International experience has shown that the simple act of requiring organisations to report their pay gaps to the public significantly reduces them.

This document outlines our shared view about the importance of mandatory pay gap reporting for Aotearoa and our recommendations on what a good reporting will look like.

We call on you to legislate for mandatory pay gap reporting now.

## Signatories



# 1 Understanding Pay Gaps in Aotearoa / New Zealand

Pay gaps are differences in pay between groups of employees. Gaps are found between men and women (gender pay gap), for Māori employees, for Pacific employees, for other ethnic groups (ethnic pay gaps), for employees with disabilities and people who are gender diverse<sup>1</sup>.

## 1.1 Current pay gaps

Statistics NZ's data shows that the average hourly wage earned by Māori employees was 82% of the average hourly Pākehā wage in 2017, while the average wage earned by Pacific employees was 77% of the average Pākehā wage<sup>2</sup>.

The gender pay gap in the June 2021 quarter was 9.1 percent and has remained stubbornly around nine to ten percent for the last decade<sup>3</sup>.

The intersection of gender and ethnicity generates even more substantial pay gaps. The gap between the average hourly earnings of a European male worker and Pacific female worker is 27 per cent<sup>4</sup>.

But there is insufficient data on the pay gap for gender diverse and rainbow communities and limited disaggregated data for ethnic minority women and Middle Eastern, African, and Latin American communities.

## 1.2 Why pay gaps exist

About 20 % of the gender pay gap in Aotearoa / New Zealand can be accounted for differences between men and women in education, occupation choice, age, type of work and family responsibilities.

The remaining 80 percent cannot be easily explained other than by behaviour, attitudes, and assumptions about women in work, including unconscious bias and discrimination<sup>5</sup>.

For Māori, approximately 70 % of the pay gap can be explained by personal and job characteristics with education level and occupation the most important. For Pacific workers, 40-50 % of the gap can be explained this way.

The remaining proportion of the gaps are attributed to a variety of factors, including discrimination<sup>6</sup>.

## 1.3 Why addressing them matters

**Addressing pay gaps is critical to supporting Māori and Pacific aspiration and well-being**

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<sup>1</sup> Stats NZ (2020). Organisational gender pay gaps: Measurement and analysis guidelines (second edition). Retrieved from [www.stats.govt.nz](http://www.stats.govt.nz)

<sup>2</sup> <https://www.treasury.govt.nz/publications/ap/ap-18-03-html>

<sup>3</sup> <https://www.stats.govt.nz/information-releases/labour-market-statistics-income-june-2021-quarter>

<sup>4</sup> <https://www.hrc.co.nz/our-work/economic-and-social-rights/pacific-pay-gap-inquiry/>

<sup>5</sup> Pacheco, G; Li, C; and Cochrane, B (2017) Empirical Evidence of the Gender Pay Gap in New Zealand, Ministry for Women

<sup>6</sup> Treasury, 2018. Statistical Analysis of Ethnic Wage Gaps in New Zealand (AP 18/03), <https://www.treasury.govt.nz/publications/ap/ap-18-03-html#section-1>

The Māori and Pacific pay gaps represent substantial income and resources that are not available to Māori whanau and Pacific families.

While the Treasury concludes that investing education attainment for Māori and Pacific peoples will reduce pay gaps, much of the gaps are driven by behaviours – such as discrimination – that will not be addressed by individual employees, but by the leadership of workplaces across New Zealand<sup>7</sup>.

Te Tiriti o Waitangi provides Māori the rights of participation, protection, and partnership in their workplaces. The size and persistence of Māori pay gaps clearly demonstrates that this is not occurring.

### **Women's wages are critical to well-being of children, families, and whanau**

From 2007 to 2018, about 40% of children in poverty were living in working households<sup>8</sup>. Many of these households are dependent on the wages of women.

Approximately 70 000 sole parent households are led by women working either full or part-time who live in some degree of material hardship. This is potentially 139,400 or more children who are in full or part reliant on their mother's wage who are growing up in poverty.

There a further 445,000 households with two parents working (combinations of full and part time workers) who are raising children in some degree of material hardship. In many of these households, women's wages will also be important to family household income<sup>9</sup>.

Too many women earn too little: when the main earner in the household is female (compared to male), the in-work poverty rate is substantially higher<sup>10</sup>. Children are not poor; their mothers and female caregivers are. Ensuring women are paid equitably (pay equity) and afforded opportunities to advance to higher paying roles (addressing the gender pay gap) will reduce our child poverty rates.

### **Ethnic Pay Gaps are growing**

Income surveys clearly show that while the gender pay gap has remained static over the past decades, ethnic pay gaps have increased: especially for Pacific women and men, Asian women, and Maori men<sup>11</sup>.

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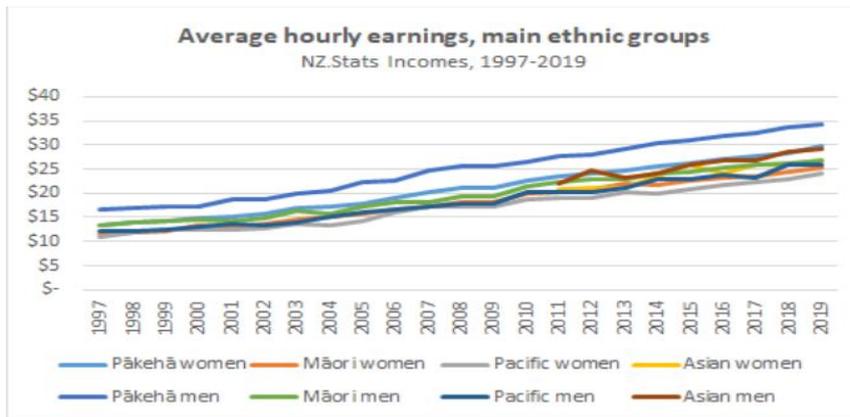
<sup>7</sup> Treasury, 2018. Statistical Analysis of Ethnic Wage Gaps in New Zealand (AP 18/03), <https://www.treasury.govt.nz/publications/ap/ap-18-03-html#section-1>

<sup>8</sup> Perry, B. (2019). Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018. Ministry of Social Development. Wellington. New Zealand

<sup>9</sup> Perry, B (2021) Child Poverty in New Zealand, Ministry of Social Development <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/child-poverty-in-nz/index.html>

<sup>10</sup> AUT New Zealand Research Institute (2019) In-Work Poverty in New Zealand, Human Rights Commission [https://www.hrc.co.nz/files/8215/7462/2882/In-Work\\_Poverty\\_Report\\_2019.pdf](https://www.hrc.co.nz/files/8215/7462/2882/In-Work_Poverty_Report_2019.pdf)

<sup>11</sup> <http://cevepnz.org.nz/Gender%20pay%20gap/gender-ethnicity.htm>



### Diverse, fair workplaces are more productive

To address ethnic and gender pay gaps, organisations will need to recruit and promote a diverse range of leaders. In doing so, they gain the rewards of diversity: attracting and retaining the best talent, having a more engaged workforce, better decision-making, and higher levels of innovation.

Increasingly customers, employees, and stakeholders are also making choices based on values and social responsibility. Addressing ethnic and gender pay gaps are one way of demonstrating an organisations' values<sup>12</sup>.

### Addressing income inequality will boost Aotearoa / New Zealand's economic prosperity

OECD analysis concluded that income inequality has a negative and statistically significant impact on medium-term growth. Growing income inequality from 1985 to 2005 is calculated to have cost New Zealand 13 percent of economic growth by 2010<sup>13</sup>.

Reducing income inequality will boost economic growth.

However, the impact of COVID is likely to intensify existing income inequalities, particularly for women's levels of underemployment<sup>14</sup>, and widening ethnic pay gaps<sup>15</sup>. Migrant workers' employment has been particularly impacted by COVID, with higher rates of job loss, and issues finding work and reduced income<sup>16</sup>.

### As a country, we pride ourselves on playing fair

Fairness is a shared value across Aotearoa / New Zealand. That is why eliminating the gender pay gap in the Public Service is a current priority for the Government, Public Service chief executives and State sector leaders and the PSA Union. Ensuring women's pay reflects their skills, efforts, and responsibilities, and is not negatively affected by their gender, is acknowledged by the Public Services Commission as a fundamental human right<sup>17</sup>.

<sup>12</sup> [https://women.govt.nz/sites/public\\_files/GPG%20Actions%20for%20Employers\\_0.pdf](https://women.govt.nz/sites/public_files/GPG%20Actions%20for%20Employers_0.pdf)

<sup>13</sup> <https://berl.co.nz/our-pro-bono/inequality-and-new-zealand>

<sup>14</sup> <https://www.stats.govt.nz/news/covid-19s-impact-on-women-and-work>

<sup>15</sup> <https://ir.canterbury.ac.nz/bitstream/handle/10092/101322/Exposing%20Gender%20Inequalities%20Impact%20of%20COVID-19%20Published%2030-10-2020.pdf?sequence=2&isAllowed=y>

<sup>16</sup> [https://static1.squarespace.com/static/5cca54599e483d0001fff53b/t/6036e88e787d37136315aa1e/1614211227802/Migrant+Experiences+in+the+time+of+COVID\\_Belong+Aotearoa+Survey+Report+2020.pdf](https://static1.squarespace.com/static/5cca54599e483d0001fff53b/t/6036e88e787d37136315aa1e/1614211227802/Migrant+Experiences+in+the+time+of+COVID_Belong+Aotearoa+Survey+Report+2020.pdf)

<sup>17</sup> <https://www.publicservice.govt.nz/our-work/the-gender-pay-gap-and-pay-equity/>

However, such rights are not extended to Māori and Pacific workers and all workers in private and community sectors.

We have signed up to a range of Human Rights instruments that reflect our view of ourselves as giving everyone a fair go. The Sustainable Development Goals 1, 5, 8 and 10 directly expected us to address pay inequality. To date, several United Nations Committees have already had to recommend that Aotearoa / New Zealand eliminate racial and gender-based discrimination in all workplaces<sup>18</sup>.

### **But we are being left behind**

Many countries that we compare ourselves to have implemented policies and laws aiming to reduce the gender pay gap. Most noticeably, Australia legislated for gender pay gap reporting in 2012 and established the Workplace Gender Equality Agency to oversee the system<sup>19</sup>. New Zealand businesses based in Australia are currently required to report under this legislation.

Mandatory ethnic pay gap reporting is starting to be introduced, like in the Biden administration<sup>20</sup>. Several jurisdictions are also currently consulting on proposed legislative changes such as the UK Government<sup>21</sup>.

### **It is the law**

Aotearoa / New Zealand's employment and workplace relations legal framework is based on good faith, human rights, good employer practice and natural justice. Identifying and addressing pay inequality is part of being a good employer. Further, the Equal Pay Act 1972 requires that men and women doing work requiring the same, or substantially similar skill, effort, responsibilities and working conditions are paid the same<sup>22</sup> and recent amendments provide for a pay equity process of which many claims are in train.

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<sup>18</sup> <https://pacificpaygap.hrc.co.nz/learn-more>

<sup>19</sup> <https://www.wgea.gov.au/about>

<sup>20</sup> <https://www.congress.gov/bill/117th-congress/senate-bill/205>

<sup>21</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/747546/ethnicity-pay-reporting-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/747546/ethnicity-pay-reporting-consultation.pdf)

<sup>22</sup> <https://www.employment.govt.nz/hours-and-wages/pay/pay-equity/gender-pay-gap/>

## 2 Pay Gap Reporting

Most organisations have pay gaps. In the United Kingdom, 92% of organisations required to report reported gaps.

International evidence shows that the simple act of requiring organisations to report their pay gap will significantly reduce the gaps.

European experience of mandatory reporting showed that some companies did not believe they had gender pay gaps so had not undertaken any analysis. In Finland, 56% companies found pay issues they hadn't identified after they were required to report<sup>23</sup>.

For others, the requirement for transparency means they are more focused on addressing pay gaps.

Public sector disclosure laws reduced the gender pay gap in Canadian universities by 30 percent<sup>24</sup>.

The introduction of gender pay gap reporting in the United Kingdom led to a reduction in the gender pay gap of 19%<sup>25</sup>.

Denmark found pay gap reporting reduced their gender pay gap and increased the number of women being promoted<sup>26</sup>.

Further, women in the United Kingdom chose lower pay gap employers<sup>27</sup>. Consumers, especially women, also chose not to purchase from businesses with large gender pay gaps<sup>28</sup>.

### 2.1 The Case for Pay Gap reporting in Aotearoa / New Zealand

The gender pay gap has remained stubbornly stable for the past two decades. Data about ethnic pay gaps is now more readily available and shows substantial inequality.

Pay gap reporting is a simple exercise that has proven effective in reducing gaps.

Public service agencies already report, as do businesses with footprints in Australia (as reporting is mandatory there). Some New Zealand business also report their gender pay gaps voluntarily.

Given overseas experience has shown the impacts of COVID on the gender pay gap<sup>29</sup> and the current boom in construction is likely to see male wages increase while women's stall, it is time to ensure all pay gaps are closed as much as possible.

There is also an increasing demand from employees, potential investors, potential employees, and customers for corporate social responsibility, including transparency around pay gaps. Employees, including the vast number of overseas New Zealanders returning, expect modern, equitable workplaces.

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<sup>23</sup> <https://op.europa.eu/en/publication-detail/-/publication/dad67ea7-3168-11e8-b5fe-01aa75ed71a1>

<sup>24</sup> <https://www.nber.org/papers/w25834>

<sup>25</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3584259](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3584259)

<sup>26</sup> <https://voxeu.org/article/pay-transparency-and-gender-pay-gap>

<sup>27</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3584259](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3584259)

<sup>28</sup> <https://myscp.onlinelibrary.wiley.com/doi/10.1002/jcpy.1219>

<sup>29</sup> <https://www.weforum.org/agenda/2021/03/the-covid-19-effect-on-the-global-gender-gap-measuring-it-is-the-first-step-towards-closing-it/>

### 3 Pay Gap Reporting for Aotearoa / New Zealand

Pay gap reporting requirements should be as simple as possible (for both the businesses reporting and those wishing to access the data), consistent, and accurate while also aiming to make the most impact on reducing gaps.

The following outlines what an initial world class reporting regime would look like, a regime that can evolve over time.

#### 3.1 Who should be required to report

All businesses with 50 or more employees should be required to report their ethnic and gender pay gaps. This aligns with international best practice. Based on 2020 data, this will mean 6024 businesses will need to report, covering 58 percent of private sector employees (1 354 500 workers)<sup>30</sup>.

All non-government organisations (NGOs) with 50 or more employees should also be required to report their ethnic and gender pay gaps. They often receive substantial taxpayer funding which, arguably should be used to pay their workers equitably. Approximately 360 charities would be required to report who employ nearly 150 000 workers<sup>31</sup>.

The rest of New Zealand's workers are employed by small and micro businesses and organisations (most with under nine employees). Making reporting mandatory for these risks the reporting of poor data and the salary information of individual employees inadvertently made public.

They should instead be encouraged to identify and address their pay gaps with support such as:

- Tailored advice and tools
- Being widely celebrated if they are good employers (important for many in the current tight labour market)
- Getting preferential access to contracts and procurement processes, or funders requiring pay equality as a condition of grants.

#### 3.2 What should they be required to report

There are several methodologies that can be used to measure pay gap<sup>32</sup>. One standard method should be selected by officials, in consultation with business and NGOs. The method selected should present the most complete and accurate measurement of gaps as experienced by most workers, as well as being as simple and clear as possible.

Standardised reporting should include:

- a standardised definition of who is considered an employee (including contractors and casual workers)
- acknowledgement of gender diversity
- standardised classifications of ethnicity (potentially based on agreed census classifications)
- a standardised definition of pay, that by international standards should include total pay (such as Kiwisaver contributions, bonuses, and allowances).

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<sup>30</sup>[http://nzdotstat.stats.govt.nz/OECDStat\\_Metadata/ShowMetadata.ashx?Dataset=TABLECODE7612&ShowOnWeb=true&Lang=en](http://nzdotstat.stats.govt.nz/OECDStat_Metadata/ShowMetadata.ashx?Dataset=TABLECODE7612&ShowOnWeb=true&Lang=en)

<sup>31</sup> Data accessed from New Zealand Register of Charities, 4/10/2021

<sup>32</sup> The two most common are comparisons of average salary or median.

They should report on their:

- Gender pay gap
- Pay gaps for all Māori workers<sup>33</sup>
- Pay gaps for Māori women
- Pay gaps for all Pacific workers
- Pay gaps for Pacific women employees
- Pay Gaps for other ethnic groups, and ethnic women

### **3.3 Where should they report**

Businesses and NGOs should include this data in their annual reports. Here they will be able to present the plans they have in place to reduce their pay gaps.

They should also submit their data to a national register by a given date each year. This register should be maintained and monitored by a government agency (such as Stats NZ) and should be easily searchable by the public. The agency should also be funded to undertake analysis on trends.

### **3.4 Who should take responsibility for reporting**

As we have seen with other legislation mandating reporting, compliance is likely to be variable. Appropriate penalties for non-compliance will need to be legislated. An agency should be tasked with monitoring compliance.

### **3.5 How should it be introduced**

A discrete piece of legislation is needed to implement mandatory reporting to ensure it has the visibility needed to ensure compliance.

Implementation of mandatory reporting should be phased. The aim of reporting is for businesses to provide accurate data. We note that while many businesses may have accurate gender data, they may not currently collect ethnicity data.

There are several options for phasing (and discussions with business peak bodies will identify the most effective):

1. Begin with mandatory reporting for businesses with over 250 employees. These businesses are likely to have HR functions that can support reporting in Year 1. Expect other businesses to comply in Year 2; or
2. Signal the requirement for reporting and allow one- or two-year's grace before compliance is mandatory; or
3. Expect all businesses to report on their gender pay gaps in Year 1, followed with ethnic pay gaps in Year 2 or 3.

Stats New Zealand has identified that substantial pay gaps exist for employees with disabilities and people who are gender diverse. Design and consultation about how to collect this data and report these pay gaps should also occur.

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<sup>33</sup> Compared to Pākehā male pay