ESG

DEI in the face of inflation

23 March 2023

Key takeaways

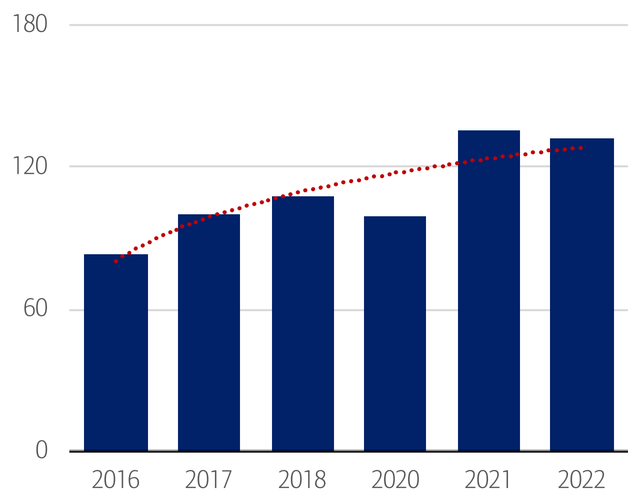
- Progress on closing the gender gap has stagnated in the wake of inflationary pressures. Why? One reason appears to be that women are less likely to receive pay raises that keep up with inflation. According to the Bureau of Labor Statistics (BLS), in 2022 the Healthcare & Education sector, where 75% of workers are women, saw the second-lowest nominal wage increase across sectors.
- Women are also disproportionately impacted by mounting childcare and healthcare costs. The Consumer Price Index shows that daycare and preschool costs have risen by more than 10% since the pandemic started. Many families are torn between spending a large portion of their paycheck on these costs, using lower-quality care options, reducing work hours, or giving up work to become full-time caregivers.
- Companies that offer benefits such as paid parental leave, childcare, and flexible work options can help "inflation-proof" employees' earnings, meet costs and attract and retain employees. And since women are more likely to benefit from these programs, such measures should also facilitate advancing gender parity.

Gender parity under pressure

Though the global gender gap has closed by four years compared to the 2021 estimate, it will still take 132 more years to reach full parity at the current rate of progress (Exhibit 1). And while women have made strides in the workforce, progress on women's rights is not linear, and setbacks, such as COVID-19, have worsened gender inequality by possibly pushing some women out of the workplace.

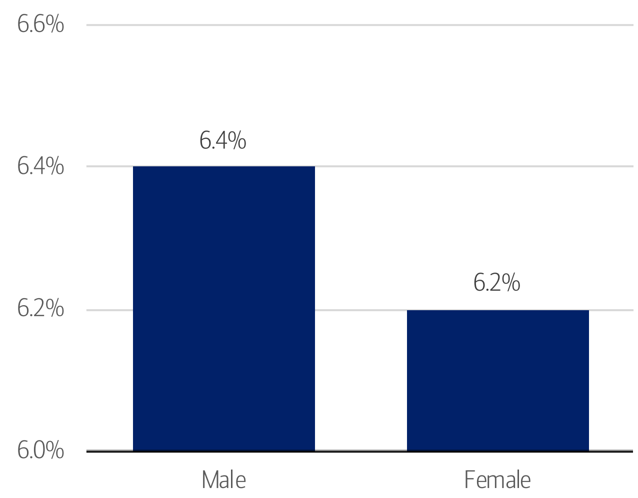
Though the peak of the pandemic is over, today's macroeconomic environment continues to impede progress on closing the gender gap. Why? For one, wages aren't keeping up with inflation. Though we have seen strong overall wage growth in the last year, women have experienced lower year-over-year (YoY) median wage growth than men (Exhibit 2).

Exhibit 1: Years to close overall Global Gender Gap, based on progress each year
Time to gender parity has slightly improved since 2021



Source: WEF Global Gender Gap Reports, 2016-2022.

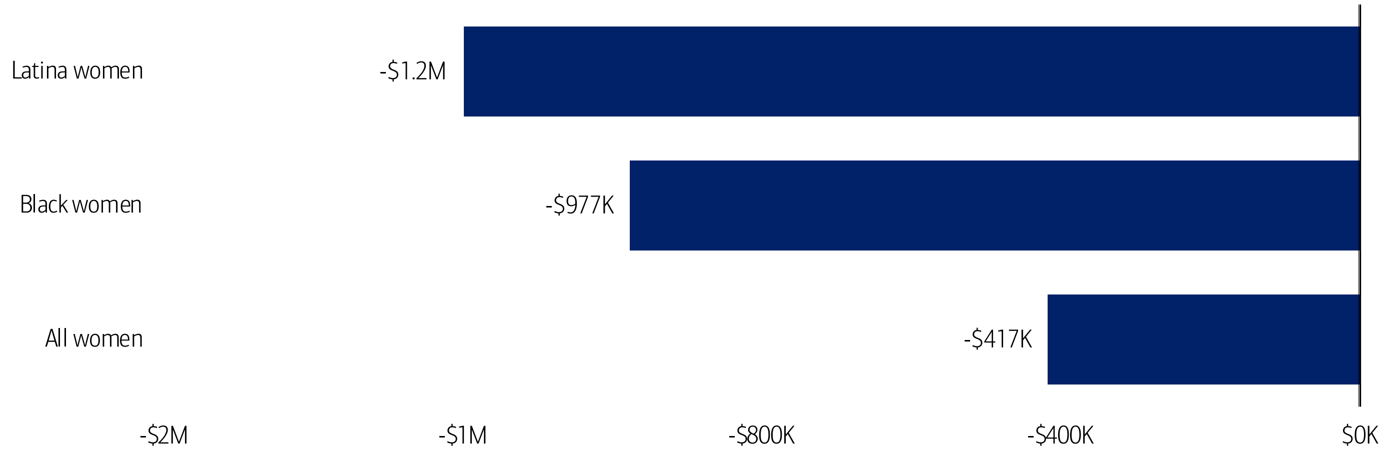
Exhibit 2: Average YoY median wage growth for men and women in the US, last 12 months as of 1/2023
Higher wage growth for men than women



Source: Current Population Survey, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, BofA US Equity & Quant Strategy

Women in the US face significant pay disparities and are overrepresented in low-paying occupations, as shown in a study by the National Women's Law Center. Also, data from the BLS shows that minority women tend to earn less than white women and men overall. In Q4 2022, median weekly earnings for black women were $856, compared with $774 for Hispanic or Latina women. Meanwhile, the figure was $991 for white women and $1,194 for white men. Such challenges may limit women's ability to accumulate wealth over a lifetime – especially minority women (Exhibit 3).

Exhibit 3: Lifetime earnings losses due to the wage gap by race/ethnicity, 2020
Wealth accumulation gap greatest for minority women



Source: Center for American Progress; National Partnership for Women and Families, "America's Women and the Wage Gap" (2022). Note: Wage gap data for women of color are for full-time, year-round workers and are relative to white men's earnings. Wage gap data for all women are for full-time, year-round workers and are relative to all men's earnings. Calculations assume that the wage gap will remain at its current level over a 40-year time horizon and that women will work full-time, year-round for their entire careers (ages 25 to 64).

Women hurt more by high healthcare and childcare costs

The pandemic undeniably worsened the childcare crisis, and inflationary pressures have added fuel to the fire. Childcare costs have outpaced income growth, jumping 25% in the last decade and 214% since 1990 (Exhibit 4). The Consumer Price Index shows that daycare and preschool costs have risen by more than 10% since the pandemic started. And over 50% of parents spend more than 20% of their income on childcare in the US (Care.com). So how are families coping?

As we explored in a recent publication, caregiving responsibilities still disproportionately fall on women and are ultimately keeping them from entering, staying and progressing in the labor force. Many families are therefore torn between spending a large portion of their paycheck on childcare, using with lower-quality care options, reducing work hours, or leaving the workforce altogether to become full-time caregivers.

Exhibit 4: Increase in childcare costs and average family income, 1990-2022
Childcare inflation has outpaced income gains in last 3 decades

Source: Bureau of Labor Statistics (BLS) Consumer Price Index

Healthcare costs have risen faster than inflation (Exhibit 6) and can also disproportionately affect women as they tend to have lower incomes than men, use more medical services, and have reproductive and maternal healthcare needs, according to BofA Global Research.

In the US, one in four (24%) women report having had problems paying medical bills in the past 12 months, over half (57%) of whom say this was due, at least in part, to COVID-19 (Kaiser Family Foundation (KFF)). In addition, average health spending per

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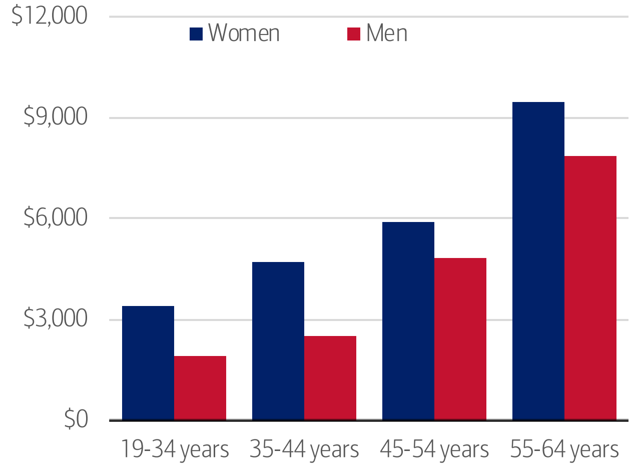
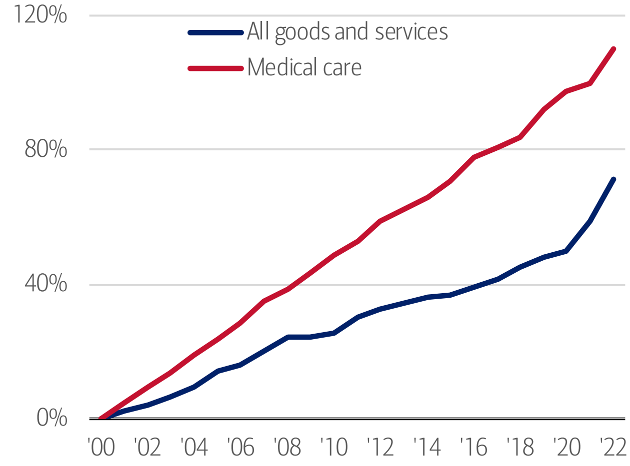
capita is noticeably greater during prime female reproductive years (Exhibit 5). Plus, single women spend nearly twice as much of their income (6.8%) on health insurance as single men (3.9%) and spend more on health insurance than men do (BLS).

Exhibit 5: Average health spending per capita by age in the US in 2015
Health care costs more for women, particularly during reproductive years



Source: Kaiser Family Foundation 2019 analysis. Original data and detailed source information are available at: kff.org/JAMA_6-11-2019

Exhibit 6: Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, 10/2000-10/2022
Health care costs have risen faster than inflation



Source: KFF; Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data. Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Greater equality = a multiplier of innovation and growth

When employees feel a strong connection to their workplace culture and values, they are more likely to remain with the company, even during times of economic uncertainty.

Greater innovation, better decision-making and higher financial returns all correlate to a sense of inclusion. Companies with above-average diversity in their leadership teams report revenues from innovation that are as much as 19 percentage points higher than those with below-average management diversity, according to BofA Global Research.

In more equal corporate cultures, men are twice as likely to reach senior manager levels, and women are four times more likely – meaning both groups gain (Accenture). In the example above, closing the perception gap about a more inclusive environment by 50% implies increased retention rates for both men and women.

Inclusion can help to promote diverse perspectives and ideas, which can be valuable in navigating economic changes, as companies need to adapt and innovate to stay competitive. Inclusion of team members with different perspectives and ways of thinking facilitates greater innovation.

But Diversity, Equity and Inclusion (DEI) budgets are geared towards promoting culture, innovation and growth at many companies. Inclusive companies are more successful in employee hiring and retention. According to BofA Global Research, there is a correlation between diversity and inclusion and greater innovation, higher cash flows and a stronger bottom line.

Benefits matter for employee retention and satisfaction

According to BofA Global Research, employees increasingly want jobs that allow them to live their lives on their own terms, while meeting their financial needs.

If salary increases aren't in the cards, what can be done to mitigate the impact on employees? Offering attractive benefits can be a differentiator and a key to retention in the war for talent.

Childcare remains a priority

Childcare benefits are the second-highest reason parents stay in their jobs, behind health insurance, per KinderCare, which partnered with the Harris Poll to survey 2,800 US parents with children under 12. Work-provided childcare benefits are particularly important in countries like the US where governments provide little financial support, meaning families must cover a higher proportion of childcare expenses.

Healthcare benefit enhancements

The top three reasons employees would consider leaving their job in 2022 were: insufficient pay (54%), burnout (34%) and insufficient healthcare benefits (27%) (Inside Employees' Minds). Providing benefits supporting reproductive health could go a long way, as women's health needs have long been disadvantaged in health programs.

Stay flexible

Flexibility can also help companies diversify their workforce: 71% of Human Resources leaders say that remote work helped their organization hire and retain more diverse employees, according to McKinsey. The report mentioned that women experience fewer microaggressions when they work remotely. In fact, the report also found that 20% of women who switched jobs in the last two years cited flexibility as a reason, compared to just 13% of men.

Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures