AON

Understanding and Preparing for the Rise in Pay Transparency



New regulations in the U.S. and Europe will require companies to be more transparent about their pay practices. Combined with willingness among workers to talk about salary, the era of pay transparency is here

Key Takeaways

01 Pay transparency continues to gain momentum, as more jurisdictions pass regulations.

02 Increasing transparency requirements are also moving companies toward equity in pay.

03 The EU Directive on Pay Transparency marks a sea change that will affect companies worldwide.

> There is not a single argument why — for the same type of work — a woman should get paid less than a man. Not a single argument, not a single one [...] It's a basic principle of equality, it's finally cast into law. Equal work deserves equal pay.
>
> **Ursula von der Leyen**
> European Commission President

The rise in pay transparency and pay equity initiatives around the world is catching up with a cultural shift, especially among younger employees. Where it was once considered impolite or taboo to publicise salary information, a movement has grown around the notion that shielding the numbers has allowed companies to reinforce and exacerbate gender gaps in pay. Thus, regulatory bodies across Europe and North America are mandating more salary disclosures around pay.

Arguably the most sweeping pay transparency regulation is the European Union Directive on Pay Transparency. The directive requires member countries to pass legislation mandating greater transparency and equity in pay.

Taken collectively, these regulations aim to address wage disparities, promote fairness and empower employees to make informed decisions about their careers. Compliance is important — and many multinational companies may not be fully aware of the degree to which they must comply with the EU Directive or other regulations in jurisdictions where they are hiring.

How can companies navigate the emerging patchwork of pay transparency regulations?

The State of Global Pay Transparency

Here's a roundup of some of the key pay transparency regulations happening around the world.

European Union (EU)

The biggest, and potentially most impactful, regulation is the EU Directive on Pay Transparency. Its goal is to reinforce gender pay equity. In April 2023, the European Union adopted a pay transparency directive aimed at closing the pay gap between men and women. While not binding legislation itself, the directive requires member states to pass new legislation by June 2026 that will require all companies with 100 or more employees in Europe to comply with a set of stringent rules, including, but not limited to:

- Providing pay ranges to job applicants
- Providing information on the criteria for determining pay and pay progression to all workers
- Reporting and sharing information on the gender pay gap in the organisation overall and in distinct categories of jobs with workers
- Working with employee representatives to assess the causes of pay gaps and remedy those gaps

Under these new regulations, companies will be required to go beyond paying the same for identical work. Rather, a set of gender-neutral job evaluation methodologies and classifications will need to be developed and pay equity will be required across similar categories of jobs. The criteria will include skills, effort, responsibility and working conditions. Employers must not undervalue soft skills or reflect gender biases.

The penalties for non-compliance have not yet been spelled out, but the directive requires them to be "effective, proportionate and dissuasive penalties." Laws allow employees who have suffered from inequitable pay practices to recover damages or reparations. Victims of pay discrimination would be entitled to compensation, and the burden of proof would fall to the employer once a claim of discrimination has been made. This means companies must have documented evidence to show they are not engaging in discrimination.

United States (U.S.)

More than 20 U.S. states, and nearly two dozen cities and counties, have restrictions on asking applicants about their salary history. Ten of those states also mandate that all job listings contain a salary range. Some apply to private business, while others only apply to governmental entities. Additionally, some restrictions only apply until an offer is made, while others carry all the way through the hiring process.

Some U.S. companies think of pay transparency as an EU concern, or as something that will never actually affect them. Certain industries are also reluctant to publicise salary information, as they fear a backlash from clients and the loss of what they see as a competitive advantage. But more than half the U.S. population lives in places with some form of regulation. This, coupled with the growing compliance issue and social movement toward pay transparency, makes such assumptions seem unwise.

Canada

While there is no national requirement for pay transparency in Canada (with the exception of some higher-salaried government jobs), adopted legislation in British Columbia requires companies to disclose pay ranges and prohibits asking candidates about previous pay. Similar legislation has passed in Newfoundland and Labrador, as well as Prince Edward Island, and is being considered in Ontario. Companies in these areas are also required to publish wage gap information.

Canada also has stringent requirements around job evaluation for public employees. These requirements mandate that gender neutral standards are set to establish the appropriate classification level for jobs.

United Kingdom (UK)

Since 2017, the UK has had gender pay gap reporting requirements in place. Because so many companies in the UK are multinational and have a presence in the EU, there is speculation that the UK will eventually adopt elements of the EU directive.

These could include:

- Publishing pay ranges in job listings
- Giving all workers information on the criteria for determining pay and pay progression
- Compelling companies to provide equal pay for equal value.

Japan

The government's 2022 Framework Policies[1] plan requires companies with more than 300 employees to calculate women's pay as a percentage of men's pay across all employees. The same information must then be broken out by regular and irregular (e.g. part-time, contract and contingent workers) employees. The gender pay gap must be disclosed annually and within three months following the end of the fiscal year. These percentages must be posted on the company's website. Beginning in January 2023, gender pay gap data was also required in annual securities reports for listed companies. Smaller companies are currently exempt from pay gap reporting, but this could change in the future.

Australia

Australia banned pay secrecy in December 2022[2], meaning companies are not allowed to prohibit employees from discussing salary. Employees have the right to share (or not to share) information about their pay with each other. Additionally, companies with 100 or more employees must report on their gender pay gap annually[3].

The Impact of the EU Directive on Multinationals

Any multinational company with a certain number of employees in one or more EU member states will need to comply with the directive and related laws of each EU state in which they have employees.

While the EU directive will not apply outside the EU, other countries — especially the UK — have used the directive as a model and may implement many of its elements. The EU directive also reflects global trends that other nations around the world, including some U.S. states, may adopt. Multinationals should assess pay practices globally to ensure they are prepared for these changes beyond Europe.

> Don't let the deadline date lull you into a false sense of security. This shift is going to take time, and companies need to start preparing now to make sure their new systems are in place and they've worked out all the details.
>
> **Kelly Voss,**
> Head of Rewards Advisory, North America

[1] Outline of the Act on the Partial Amendment to the Act on Promotion of Women's Participation and Advancement in the Workplace

[2] Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022

[3] Gender Pay Equity

Six Steps to Prepare for Pay Transparency

Preparing for the coming changes may seem like a daunting task; these are big deviations from the culture around pay that most companies have built. But by asking tough questions and following the lead of a trusted advisor, companies can make a smooth transition.

01

Assess Compliance With Regulation

Determine which laws and regulations apply to your business — and which segments of your employee population. Consider whether voluntary disclosure or compliance with certain laws makes sense, particularly if laws apply to certain segments of the employee population and not others.

For example, as part of the EU Directive, job evaluation methods to compare and assess pay levels must be based on gender-neutral criteria and include gender-neutral job evaluation/ classification systems.

02

Consider Your Pay Transparency Foundation

Start with an updated job architecture to make sure you have jobs and people in the right roles in the first place. This will serve as the foundation of pay equity. You could also conduct an accelerated salary structure design initiative, which many total rewards teams are dropping everything to complete. Part of this requires ensuring you have clear processes, guidance and governance to underpin rewards, recruitment, talent and promotion decisions.

03

Create a Roadmap for Change

Conduct an internal pay equity audit and ensure that follow-up audits are scheduled regularly. Determine if pay equity gaps are statistically significant, and if so, examine the root causes.

Next, move on to remediation strategies. Determine who is eligible for equity-based adjustments, and how much closing the gaps will cost. After equity gaps are remediated, decide if hiring and promotion practices need to change. Revisit your pay equity analysis with a focus on what it is you are paying for. Is it true that only fully proficient employees are paid above the midpoint? What else drives pay? Is it tenure or experience, or education or reporting lines?

04

Prepare People Managers to Communicate on This Issue

How ready are people managers to handle these tough questions from employees? Do all managers have a solid understanding of how the pay program works?

Communication will be key. Offer simulations and role play tough conversations to make sure your managers are answering difficult questions effectively. Ensure all people leaders are well educated on the process for setting and moving pay.

05

Address the Bigger Philosophical Question Around Transparency

Understand your organisation's approach and focus on being prepared. Regardless of current requirements, take proactive measures: perform a pay equity analysis, identify existing gaps, revisit your job architecture and salary levels to improve your reward programs and implement continuing manager training. Even if your organisation is not subject to specific pay transparency laws, lay the foundation for future disclosure and consider whether proactive disclosure makes sense for your business. For example, are your competitors disclosing salary ranges? Do leaders think it will be beneficial for talent acquisition efforts to have this level of pay transparency?

06

Look at the Full Picture of Pay Transparency

Posting salary ranges is probably the most visible step in pay transparency, and the one that requires the most preparation. But by no means is it the only step. Being prepared to discuss and, if necessary, close a pay equity gap requires a culture change that may challenge many organisations.

Pay Transparency Opens the Door to Opportunities and Challenges

There are genuine business advantages to pay transparency. This truth sometimes gets lost in the compliance discussion. Pay transparency can eliminate the applicant guessing game that often costs time and money when candidates' expectations don't match the salary range a company is offering. However, for those companies that are not properly prepared, pay transparency can also cause short-term difficulties. The burden of workers knowing what the salary range for a position is, and then knowing where they stand on that range, usually falls on supervisors. They will be the ones fielding complaints from workers whose pay is not in line with others.

There are a few easy-to-see challenges that the pay transparency movement presents. Compliance with regulations may:

- Lead to wage inflation and increase costs
- Lead to a loss of talent and talent wars
- Increase risk of employee relations issues including grievances
- Trigger new waves of equal pay claims
- Highlight weak or non-existent frameworks, processes and data (e.g., job evaluation methodology, regular pay equity audits or sufficient compensation market data)
- Reveal ambiguous pay policies around pay setting, job evaluation and levelling, pay scales and pay governance

What do these challenges have in common? They're all the by-products of poor preparation or existing pay equity issues. Companies that are prepared for pay transparency and have a solid foundation of pay equity, can expect the following benefits:

- Increased fairness and equality, improving diversity, equity and inclusion (DE&I) and pay parity between men and women
- Identification of underlying issues within the culture of the business
- Removal of embedded bias in recruitment practices
- A rise in talent attraction and retention
- Improved trust, loyalty, performance, retention and brand recognition
- Increased motivation for employees to develop their career

Beyond the compliance aspect, companies see pay transparency as a component of their commitment to DE&I and pay equity. Pay transparency is also viewed as a positive driver of retention and culture — a key asset in today's evolving workforce and war for talent. Similarly, the open communication connoted by pay transparency resonates with many younger workers.

Being compliant and transparent about pay is a big step, but it's only the first step toward pay equity. And while equity may seem like an elusive goal, it's one that will bring a host of competitive advantages. Companies that become known for paying their workers equitably, even if that wasn't always the case, will be able to compete for talent in a competitive marketplace.

Learn more about how Aon helps organisations prepare for pay transparency and pay equity.

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