

Pay Transparency

Understanding &
Managing the Risks

November 2023

AON



Pay Transparency – a Global Movement

Pay Equity is a driving force behind the new laws, regulation and the changing attitude and expectation for pay transparency that is sweeping across the Globe.

OECD As part of efforts to close gender wage gaps, many of the OECD 38 countries are implementing **pay transparency tools** such as **pay gap reporting, equal pay audits, and job evaluation systems.**



EU – the EU Pay Transparency

Directive has been formally approved by the European Parliament and came into force on 6 June 2023.

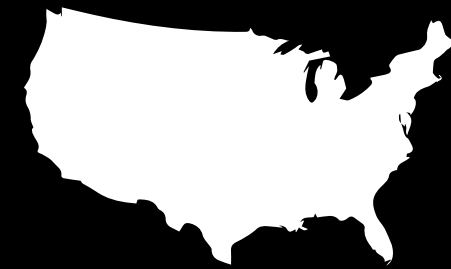
EU member states will have up to 3 years to transpose its provisions into their national laws and we anticipate that this will be much sooner in some EU countries.

UK – world leading GPG reporting

legislation in place since 2017 for companies with more than 250 employees.

The Government is currently reviewing the GPG requirements.

The UK Government also introduced a pilot scheme 2022 on Pay Transparency.



US – several US states now have pay transparency laws in place with others to follow.

Aon's Oct 2022 US Pay Survey – 49% identified pay equity as one of the key talent initiatives, including implementing formal job evaluation, levelling, grading, and salary structures.

31% of US companies surveyed intend to disclose regardless of the law.

Source: Aon's 2022 Pay Disclosure Pulse Survey

Middle East and APAC

Pay transparency is growing in importance and in reinforcing diversity and inclusion.



EU Pay Transparency Directive – key points to note

This will also apply to all companies that have employees located in EU countries.

Job applicants will have the right to **receive information on the initial pay level/range** for an advertised position and employers will not be able to ask about previous or current pay of any job applicant.

Employees will have the right to request, and receive in writing, **information on their individual pay level and the average pay levels** for categories of workers performing the same work as them or work of equal value to theirs.

Employers will need to ensure that they have a clear **understanding of work of equal value** in their business and be able to demonstrate that they include gender-neutral analytical **job evaluation systems**.

Employers with at least 100 employees will have to **publish** information on the **pay gap** between female and male workers. If a Gender Pay Gap exists of more than 5.0% then employers must work with their workers representatives to conduct a joint pay assessment (i.e. **an equal pay audit**) and develop a gender action plan.



Pay Transparency - in the UK

Equality Act 2010

Employers cannot prevent employees from discussing or seeking pay information to understand if an equal pay issue exists.

Gender Pay Gap reporting 2017

GPG reporting requirements have been in place since 2017 for companies with more than 250 employees.

Government GPG Regulations Review - this review was set for April 2022 and we await the outcome.

Ethnicity pay gap reporting – unlike GPG reporting, there is no statutory requirement for employers to report on the ethnicity pay gap although some companies are now taking a voluntary approach to publishing this data.

Government Pay Transparency Pilot in place since March 2022 with the aim to:

- increase pay transparency, and
- level up employment opportunities for working women.

As part of the pilot, participating employers are required to:

- **list salary information in job adverts, and**
- **stop requesting candidates pay history.**

CIPD

The **CIPD** welcomes the move on pay transparency and recommends, whenever possible, employers should advertise salaries in job adverts, but also to give information on the pension scheme and other core benefits.

'Doing so will help set pay expectations among job applicants as well as reducing the risk of unfair pay gaps in the workforce'

REC

REC launched the **#EndSalaryHistory** campaign aimed at tackling gender, ethnicity and disability pay gaps.

While it remains to be seen whether this will become law in the UK, Pay Transparency is a growing global movement and fast becoming an expectation among candidates and employees in the UK, Europe and beyond.

Pay Transparency expectations

Aon's 2022 Pay Disclosure Pulse Survey, **49%** of companies said **Pay Equity** was a **key talent issue**.

31% of companies are taking a voluntary approach to readiness for Pay Transparency (in locations where pay transparency laws are not currently in place)

Source: Aon's 2022 Pay Disclosure Pulse Survey

80%

of candidates **feel uncomfortable** when asked about salary at recruitment

Liberty Hive

52%

of UK job adverts **now disclose** the salary or salary range

Adzuna - survey of 80 million job adverts 2016-2023

67%

of people say **salary is the most important factor** in a job advert

Glassdoor

91%

of people say seeing a salary in the job advert **affects their decision to apply** for a job

LinkedIn

82%

of people say seeing a salary in the job advert would **give them a positive impression** of a company

LinkedIn

For Talent Acquisition Teams, there may be an upside to embracing pay transparency that goes beyond compliance.

UK Developments – Equal Pay Cases

There are > 30,000 equal pay cases that go to Tribunal each year in the UK. The impact of this cannot be underestimated.

We see high-profile cases and **multi £m payouts** and **£bn costs** in:

- Broadcasting
- Retail
- Councils
- Financial Services

Planning for Pay Transparency will enable employers to understand their risk profile and to take corrective action.

As well as mitigating legal and financial risk, companies are likely to see benefits in terms of reputation, employee trust, culture, and the ability to attract and retain talent.

This is not just an HR/Reward issue...



How can you reduce the risk of an Equal Pay claim on your organisation?

It may help to have in place (and be able to demonstrate and articulate):

- i. An analytical Job Evaluation methodology for underpinning job levels, salary structures and pay decisions
- ii. Regular independent Equal Pay Audit
- iii. Robust market data
- iv. Clear policies, processes and governance around pay and talent decision making

Pay Transparency – where are you in your preparations?

Aon can advise and support you across the whole journey to pay transparency





Next steps

What action can you take now to mitigate the risks around equal pay and pay transparency?

- ✔ **What can you do now to improve the GPG? What are your current communications saying on Equal Pay?**
- ✔ **Pay Transparency Readiness Assessment** – to understand the current situation, gap, and action plan
- ✔ **Ready your salary structures, bonus frameworks, and talent processes and governance** – Do you have an analytical Job Evaluation Framework underpinning grades and salaries?
- ✔ **Have you undertaken an independent Equal Pay Audit?**
- ✔ **Prepare the Board, C-Suite and other stakeholders for what's coming**