

# Understanding pay transparency

Frequently asked questions



# Are you prepared for the EU Pay Transparency Directive?

In today's evolving workplace, pay transparency is not just a trend; it's a necessity. Organisations are increasingly expected to provide clear and equitable pay structures.

Starting in June 2026, the EU Pay Transparency Directive will be mandatory, requiring organisations to act swiftly to avoid penalties.

This document summarises key insights from our recent workshop on pay transparency. It address common questions and clarifies the implications of the EU Directive, along with best practices for organisations. For questions, please reach out to your Mercer consultant.



In addition to the FAQs included in this document, we invite you to access our [Pay Transparency Readiness Assessment Checklist](#). This resource is designed to equip you with the tools and knowledge needed to navigate the complexities of pay transparency. Our detailed checklist will guide you through the essential steps to evaluate your organisation's readiness for the EU Pay Transparency Directive.

**[Access the checklist](#)**



# Information-sharing and transparency

## 1. Can we ask candidates about their salary expectations? And since when is this applicable?

You can ask candidates about their salary expectations, but not about their salary history. All clauses of the EU Directive must be in force by June 7, 2026, at the latest, in each EU member state. We also suggest that this question be asked after you share your proposed salary range as a company, and that you monitor the salaries of new hires to ensure they do not create larger gender pay gaps.

## 2. If an employee is interested in progression within the organisation and is currently in a different bracket or range, will the company be required to share the range for the role the employee is interested in, which could be a higher range or a more qualified role?

The EU Directive requires employers to share average remuneration for the same or a comparable position.

Employees have the right to request (directly or through their workers' representatives or national equality body) information on their individual pay level and the average pay levels, broken down by sex, for categories of workers performing the same work or work of equal value. Sharing the pay range and positioning in the range is a common practice to help respond to this request.

Employers must also share information on the criteria used to determine pay, pay progression and promotion, which must be gender-neutral.

## 3. Can an individual also request information about a grade below their own?

This is not an EU requirement, but companies may choose to share more information. Such information could be available in public job postings, which would be accessible to the employee.

## 4. Is one salary range applicable for all roles (by country, by level) compliant with the Directive required? Is more differentiation required, for example, by job family group?

Theoretically, yes. Make sure that the ranges are applied consistently and that your pay policy corresponds to practice. More differentiation may be needed in cases of wide pay ranges or distinct levels of qualification, competence or skill within one level. Where ranges are used differently by job family, ensure that this is clearly communicated and that there is a clear, unbiased rationale based on qualification, competence or skill.

## 5. If organisations are considering reporting the pay gap for all entities together in the same country, would this still comply with the EU Directive?

Your reporting must comply with the requirements of each national legislation (legal transposition of the EU Directive). Some countries may impose more obligations than others. Statistics by legal entity will be required. Some organisations will share legal entity figures and may also choose to share an overall figure to provide more context in reporting, especially where they are prone to restructuring.

## 6. Can you provide more context regarding employer requirements relating to pay and career progression transparency?

The EU Directive requires the following: "Employers shall ensure that their pay and career progression policies are transparent and that they do not discriminate on the grounds of sex." This means that the criteria for career progression should be clearly defined based on objective standards, such as a competency matrix, outlining the qualifications and/or requirements for the next level. The selection processes and application procedures should also be transparent. There should be no rules that permit biased decision-making regarding promotions, such as managerial discretion. For example, competencies could be connected to pay sub-levels, creating a clear connection between skills and remuneration.



# Details of the EU Directive

## 1. Will there be a reporting deadline across the EU, or will it depend on local deadlines by country?

The EU Directive establishes a reporting timeline that requires member states to implement the Directive's provisions by June 2026. Reporting is defined as follows:

- Employers with 250 workers or more shall report by 7 June 2027 and every year thereafter.
- Employers with 150 to 249 workers shall report by 7 June 2027 and every three years thereafter.
- Employers with 100 to 149 workers shall report by 7 June 2031 and every three years thereafter.

Following this implementation, organisations will be required to report on equal pay measures, including the collection and analysis of pay data, by a specified reporting deadline that may vary by country.

## 2. What measures are in place to enforce compliance with the legislation?

Three categories of sanctions may be imposed on companies that fail to comply with the requirements of the EU Directive:

- **Compensation for workers** — Workers who have suffered gender pay discrimination can receive compensation, including full recovery of back pay and related bonuses or payments in kind.
- **Sanctions will include fines** — Member states should establish specific penalties for infringements of the equal pay reporting, including fines.
- **Exclusion from public tenders** — Financial disincentives may be applied, such as the revocation of public benefits or the exclusion from any public tender procedure.

The most significant risk of non-compliance with the EU Directive requirements is the transfer of the burden of proof to the employer, along with easier access to courts for individuals, who may be exempt from paying court fees.

## 3. Why is an employee's location not a criterion for salary differentiation?

It has not been confirmed which factors will be acceptable criteria and may vary by country. However, previous cases have ruled against the use of location as a criterion for salary differentiation if covered under the same national collective agreement (British Coal Corporation v Smith & Ors [1996] IRLR 404).

In a case in the Czech Republic, the court ruled against different compensation for workers with the same employer at the same position but located in different cities. The Czech Labour Code explicitly lists criteria that define work of the same value, and the location of performing the work is not one of them.

Source: "Supreme Court: Same Wage for Same Work in Prague and Elsewhere," available at <https://danovsky.cz/en/news/detail/page-3/724>.

Source: "Unequal Pay: Constitutional Court Rejects Cech Post's Complaint," available at <https://danovsky.cz/en/news/detail/928>.

## 4. If organisations capture more than two genders, does the EU Directive have any guidelines to manage the pay gap analysis in such cases?

According to the EU Directive, gender is defined in a manner that encompasses a broad understanding of gender identity. The Directive recognises that gender is not limited to a binary classification of male and female but includes a spectrum of gender identities.

The Directive's definition of gender is inclusive, recognising a range of gender identities beyond the traditional male-female binary, and it aims to foster equitable pay practices for all individuals.

The focus for external reporting, however, will be male versus female. In practice, the number of individuals identifying within other gender identity categories is often small and, therefore, for confidentiality reasons, may not be able to be explicitly reported on.



**5. Can EU countries choose not to apply certain requirements in the EU Directive on Pay Equity and Pay Transparency? (For example, pay history is not applicable for Poland.)**

The EU Directive establishes minimum standards that member countries must comply with, and they may impose additional requirements on companies.

**6. For the company definition, are we talking about a legal entity? If there are several legal entities in the same country, do we need to submit for all legal entities?**

**The EU Directive in paragraph 29 defines the following:**

The Court of Justice has clarified that in order to assess whether workers are in a comparable situation, the comparison is not necessarily limited to situations in which men and women work for the same employer. Workers may be in a comparable situation even when they do not work for the same

employer whenever the pay conditions can be attributed to a single source establishing those conditions and where those conditions are equal and comparable. This may be the case when the relevant pay conditions are regulated by statutory provisions or agreements relating to pay applicable to several employers, or when such conditions are laid down centrally for more than one organisation or business within a holding company or conglomerate.

This means that a company under a single owner or holding should verify whether positions of comparable or equal value are treated consistently across all holding companies within the same country. This will be especially true when employees are asking questions about pay positioning within a country.

**8. Will the EU Directive requirements apply as of June 2026?**

By 7 June 2026, the EU Directive must be transposed into national legislation and come into effect.





# Pay equity and remediation

## 1. Any insights regarding different pay remediation strategies? What do you see companies doing to manage cost and pay equity simultaneously?

We see companies updating their approach to job evaluation and job architecture in a broader sense. This approach combines job hierarchies, job families and sub-families to create groups of positions with the same or similar value. This should enable you to calculate the adjusted pay gaps and provide an estimate of the costs associated with closing the identified pay gaps.

We also see clients proactively conducting pay gap analysis and remediation in 2025 (or earlier) to enable a longer time horizon for remediation to soften initial cost impacts.

Typically, a pay gap is introduced by a combination of (1) bias within areas of managerial discretion (i.e., assigning salary increases, performance ratings, bonus decisions, promotion decisions, career opportunities) and (2) challenges with inclusive career equity. Therefore, closing pay gaps by adjusting salaries is just one approach for remediation. We see clients using additional analysis within hiring, promotion and turnover processes, or by reviewing the dissemination of pay elements and/or performance measures to reduce the creation of gaps and potential additional costs.

The other question to consider is whether remediation is undertaken simply to bring adjusted pay gaps by worker category down to less than 5% or if, as an organisation, you wish to remedy any unexplained pay gaps to do the right thing. This will depend on budget and leadership values.

## 2. How are companies managing outliers in pay, that is, employees who are paid highly due to legacy or tenured issues?

Legacy terms and conditions often create gaps in compensation and benefits that will require justification. We would recommend reviewing the evaluation of the role placement to confirm they are indeed in the appropriate pay band/job level, and assuming this is the case, considering the tolerance in the organisation for these. You will need to collaborate with your workers' council, who may already be aware of the legacy conditions and feel these are justified. However, you will need to be confident that these are explainable and gender-neutral. It is also advisable to consider how you can limit any increases for these positive outliers without progressing to different roles or acquiring additional skills.

## 3. How are companies addressing the issue when the statistical model only adjusts the underpaid gender (a dilemma of gender pay equity and overall pay equity)?

There should be an emphasis on eliminating pay gaps of any kind. If there is any root cause of systemic discrimination, it should be removed, regardless of gender. There are tools and technologies that allow you to examine and close pay gaps considering intersectionality.

You can determine your remediation approach as an organisation, including whether it focuses on addressing the largest individual low outliers or the average pay levels for the underpaid group.

### When doing a pay audit, should we be comparing budget payroll or actual payroll results from the prior year?

Always compare the actual payroll results (real payout) for compliance reporting. Contractual pay can be used to examine pay equity throughout the year and monitor pay gaps.



# Compliance and reporting

## 1. Could you explain how to proceed with regression analysis?

Regression analysis is a statistical method used to understand the relationship between one outcome (dependent variable) and one or more factors (independent variables). It is often used to analyse compensation based on job grades (the result of job evaluation).

The first step is the preparation of data (compensation) together with the update of grading values to reflect the current state. After data cleaning, you can perform regression analysis (basic options are available even in MS Excel), and you should analyse the data and look for patterns. Reach out to your Mercer contact for more information on getting started.

## 2. Are Mercer position class levels acceptable to use to categorise employees? How do the position classes/IPE methodology relate to the Directive's requirement for the categorisation of employees based on objective criteria?

The Analytical Point System/IPE methodology is aligned with the requirements of the EU Directive, as it evaluates all positions based on objective criteria. This system has also been used for reporting purposes in Canada, Spain and Sweden.

The IPE methodology addresses gender neutrality through its focus on job content rather than job holders. It uses objective business-related factors to evaluate positions based on organisational contribution. IPE focuses on the job itself, its responsibilities, and accountabilities rather than a specific hierarchy in any organisation.

The system employs standardised language and definitions to minimise subjective interpretations that could introduce bias. By emphasising skills and responsibilities rather than historically gendered job characteristics, and by ensuring consistent application through trained evaluators, the methodology aims to reduce the risk of gender-based valuation disparities that have traditionally undervalued female-dominated occupations.

## 3. Is there any guidance on how to calculate the pay gaps?

While the Directive does not prescribe a specific formula, it outlines key principles and requirements for organisations to follow when calculating pay gaps.

**a. Comparison of pay levels:** To calculate the pay gap, organisations should compare the average pay of male and female employees performing the same or comparable work. This involves determining the average total remuneration for each gender within the same job categories or levels.

**b. Consideration of factors:** When calculating pay gaps, organisations should consider a range of factors that may influence pay, such as job level, experience, education and working hours. This helps ensure that the analysis accounts for legitimate differences in pay rather than reflecting discrimination, i.e., adjusted pay gap, which will be later reported.

**c. Calculation of the pay gap:** The gender pay gap can be calculated using the following formula:

$$\text{Pay Gap} = \frac{(\text{Average Male Pay} - \text{Average Female Pay})}{\text{Average Male Pay}} \times 100$$

This formula expresses the pay gap as a percentage of male pay, indicating how much less female employees earn compared to their male counterparts.

## 4. Is there a recommendation on tracking pay decisions to justify potential gaps? (For example, in promotions or off cycles, we do not currently request a comment in our systems to explain why this is being done.)

As the burden of proof has been transferred to employers, it is advisable to document all decisions on compensation and benefits.

## 5. What data must be reported, and what will be made public from this? For example, adjusted/unadjusted pay gaps, or the number of workers by gender?

Public disclosure of information will be defined in national legislation/guidelines. Defined statistics to include are the following: the average gender pay gap; the average gender pay gap in complementary



or variable components; the median gender pay gap; the median gender pay gap in complementary or variable components; the percentage of workers who receive complementary or variable components; the percentage of male and female workers in each pay quartile; the gender pay gap by categories of workers broken down by basic salary and variable components.

**6. Once “comparable groups” have been defined internally, does this need to be approved by an external body? Do worker representatives have to agree, or can they veto a proposal? In which country would that be possible?**

External bodies are not entitled to approve employee groupings. This decision is solely the employer's. However, the employer must be ready to prove that the grouping is based on objective criteria and treats all positions in the same way.

**7. If a company has an existing career structure tied to an external market grading framework through global consultancies, and the internal structure is based on non-gender-specific criteria (for example, experience, qualifications or complexity of the job), we would not expect to implement an additional internal job evaluation system. Can you validate?**

The existing job evaluation and grading system is a great starting point. Ensure that the system is up to date and that no adjustments are needed for the value of jobs.

**8. We have recently developed salary ranges and a career structure using the Mercer methodology. Is there an obligation on employers to bring any employees below their range up to the minimum? What advice would you give in this regard?**

There is no direct requirement in the EU Directive, but based on the typical spread of grades (+/- 15%–20%), it may be necessary to take action to avoid any material pay gaps. This is an area that requires immediate attention in the upcoming salary increase cycle.

**9. In Switzerland, there is an official analysis tool for measuring gender pay gaps (LOGIB). Would we be able to use this tool for European subsidiaries?**

LOGIB is available in all countries but is considered a simple tool for companies without any grading. Its groupings (a maximum of six levels) and features are only for small companies that want to use a free tool for very rough comparisons. If you already have a job evaluation in place, more sophisticated tools (e.g., Pay Analytics) may be more appropriate.

The EU Directive assumes that new tools will be developed as part of implementation in each state (paragraph 30): “Member States should ensure that training and specific tools and methodologies are made available to support and guide employers in the assessment of what constitutes work of equal value.”

Development of such tools and methods is already ongoing in some member states.

**10. As a multinational, we have a factory in America. Is this directive applicable only in Europe, and should we not consider this factory?**

The EU Directive is applicable only in the member states of the European Union.

**11. For global companies, would it be best practice to apply these principles to all legal entities, even those outside of the EU?**

We observe that many companies are applying the same minimum standards for pay equity and pay transparency globally to create a more consistent employee experience.

**12. How are other multinationals managing the need for meritocracy flexibility with the narrow 5% gap allowance?**

Multinationals usually apply robust job architecture connected to skills or competency matrices, which provide objective criteria for differentiation of jobs/ value of jobs.

**13. Regarding job evaluations, would we then have to ensure that all our positions are evaluated and graded, including those for whom pay is defined by a category defined by unions/CBA?**

Each company will be responsible for having a system that groups positions based on objective criteria into comparable groups (jobs of the same or similar value). Categories defined by unions may not be as robust as the job evaluation system, so we recommend adopting a uniform approach to the evaluation of all positions within the organisation.





# Technical questions on implementation

## 1. How can we manage exceptions? For example, an employee in a category where no company car is provided, but they have one because of their former position?

Companies need clear, consistent, well-documented compensation and benefit policies for each job category. Whether this creates a “gap” will depend on the overall “pay” package provided. However, our recommendation is to align with policy — any discretion needs to be subject to objective criteria.

## 2. How do we manage long-term incentives (LTI)? Should we develop criteria to determine nominations? LTI is a confidential programme — if we set definitions, is it okay to share them only with executives who are eligible for this type of compensation?

LTI should be described in the compensation policy, with a clear definition of the programme and its eligibility made available to all employees. Details regarding grants and their conditions may be provided only to the eligible group. It is important to ensure that the same terms and conditions apply to all comparable roles and that there is no gender bias.

## 3. A question about international assignees tied to a home country compensation package: Are they reported as part of their employer (home) entity or their assignment (host) entity?

International assignees should be reported as part of their home legal entity. However, when considering pay equity, they may need to be included in a host segment, or a factor of being an international assignee can be considered.

## 4. How do you manage actual variable pay in the case of retail commissions?

Short-term incentives (STI) or any form of variable pay may vary based on each employee's performance. It is important to establish objective criteria and clear calculation procedures. Additionally, all decisions

regarding variable pay should be well documented to facilitate potential dispute resolution. It is also important to consider the process of assigning sales associates to stores, markets or shifts.

## 5. Is there a minimum threshold to make a comparative analysis? Minimum threshold representativity, e.g., 25% of one gender versus 75% of the other.

There are no strict thresholds for statistical analysis. However, you may consider setting a minimum threshold for the workers' category size (for example, a minimum group of five employees) and ensuring a minimum representation of each gender (we recommend at least 25% of the sample) to display the results. This will need to be discussed and agreed with your social partner.

## 6. What is an appropriate spread of the “relevant” range to be published?

For non-CBA roles, this must be determined by your own internal strategy, considering market position, internal equity and budget.

## 7. For the calculation of pay equity, do you put all salaries on the same basis? So, annualising everyone to compare part-timers with full-timers with a full-time salary?

You need to use the same basis for calculation, such as pro-rating for part-timers and new joiners, and calculate on an annual or hourly basis.

## 8. Regarding the burden of proof, do we have to share all compensation policies with all employees? Do we need to keep track of pay decisions and register the reasons why we are making them to ensure we can justify them?

Yes, you are already addressing your questions. You need to publish all your compensation policies for your employees.

While there is no obligation to document every compensation decision (such as salary increases or short-term incentives), you must demonstrate that all decisions were made based on objective criteria.

**9. Any benchmark data about the strategy that global multinational companies (with headquarters in the US) typically plan to adopt, given the lack of consistency of global legislations and directives (US/EU/APJ: Australia and Japan versus the rest ...)?**

Yes, we collected these insights in our 2024 Global Pay Transparency Survey, where we had over 1,100 responses. Nineteen percent of US companies responded that they have already developed a global strategy and approach, with 14% reporting that they share pay ranges both internally and externally in a standardised way, regardless of local law requirements. Furthermore, more than half (51%) of respondents reported having global principles or minimum standards with variations across geographies based on local requirements or other factors.



## Contact us

For more information about how your organisation can effectively implement pay transparency practices, please reach out to your Mercer consultant. You can also access our [Pay Transparency Readiness Assessment Checklist](#) to assess your organisation's preparedness for the EU Pay Transparency Directive.

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