Cross Border Benefits Alliance – Europe (CBBA-Europe)

Position Paper on the EU Pay Transparency Directive

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Introduction

The EU Pay Transparency Directive entered into force in May 2023 and the deadline of 7 June 2026 for member states to transpose the Directive into local legislation is upon us.

However, implementation has been slow across the EU, with most jurisdictions still working on draft legislation at the time of writing.

The directive (EU 2023/970) is aimed at addressing the current pay gap of 13% across Europe, ensuring that equal work or work of equal value between men and women (the 'principle of equal pay') enshrined in Article 157 TFEU and the prohibition of discrimination laid down in Article 4 of Directive 2006/54/EC is upheld across all EU member states. All employers in the EU are in scope, although only those with greater than 100 employees are subject to reporting, along with requirements to identify and correct inequalities through a joint pay evaluation exercise where a gender pay gap of more than 5% is found. Employees and job applicants will have new rights to obtain pay-related information from all employers, while the burden of proof in cases involving suspected pay discrimination will be on the employer.

While we applaud the directive and its aim, which should, in turn, reduce the 30% pension gap and greater poverty among women, we note that the application of certain requirements is not practical, and in some cases, creates confusion or distortion, and removes the competitive edge of employers searching for best talent.

Our paper - with contributions from our members Advant Nctm, Aon, Gallagher, Mercer and Zurich - examines the following issues and offers recommendations for addressing each:

1. Inclusion of benefits in total pay
2. Right to request total pay information: understanding the value of the benefits component
3. Realistic timeline for employers to reduce the pay gap to less than 5%
4. Reporting distortions when reporting by legal entity
5. Equal pay for equal positions in cross-border teams excludes cost of living considerations
6. Competitivity of employers when total pay is public

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Inclusion of Benefits in Total Pay

The primary aim of the EU Pay Transparency Directive is to address pay gaps and ensure equal pay for equal work. While including benefits – both cash and in-kind - in pay gap calculations is required under the Directive, we believe there are potential unintended consequences for organisations as they work to balance regulatory compliance with practical implementation.

The inclusion of benefits within the definition of pay represents a significant shift. According to Mercer's 2026 Global Pay Transparency Report[1], only 18% of European companies currently incorporate benefits valuation data into total rewards reporting, and only 30% of companies include benefits teams in Pay Transparency efforts. The administrative burden being placed on organisations is significant – particularly for those just meeting the minimum threshold and who may not have previously undertaken benefit valuations. The process is complex, time-consuming and has the potential to become a costly recurring obligation.

We see several key challenges:

- **Fragmented Data Sources:** Benefits eligibility and design information are often stored across disparate systems, complicating data aggregation and accuracy. In addition, payroll and working hours (which are required for the broader pay calculations) are often held in multiple systems and not currently embedded in a centralised HRIS. To respond to the increasing pay transparency requirements, many companies in Europe are currently ensuring data reliability in HRIS / Payroll systems. However, **a lack of technology, systems capabilities or tools** is cited as a challenge for 30% of European organisations.[2] Forty-five percent of organisations update HRIS technology to support new policies (i.e., communication of pay ranges for employees or managers, or communication of pay data in job postings) and for 65% of companies spreadsheets (e.g. excel) is still the tool of choice to undertake the analysis.

[1] European sample (Continental Europe, Nordics and Ireland) of 710 organisations.
[2] Mercer's Global Pay Transparency Report, European cut (Continental Europe, Nordics and Ireland)

- **Scope and Diversity of Benefits:** The range of benefits varies considerably across member states, adding complexity to consistent reporting. In addition, benefits can vary significantly in type, value, and availability across organisations and this lack of standardisation needs to be considered when comparing individual total remuneration packages accurately.
- **Valuation Methodologies:** Some benefits are difficult to value in monetary terms which could lead to inconsistency in individual calculations from one organisation to another. Establishing robust methodology to assign monetary values to non-monetary benefits is challenging, particularly for benefits that include optionality or managerial discretion, which can affect employer costs. Only **8% of organisations currently assign values to non-monetary benefits for the purpose of total rewards disclosures.** Thirty-four percent of organisations in Europe are in the process of reviewing or updating benefits valuation practices, while 36% have not made specific changes related to requirements, but more importantly, **22% of organisations are taking no action**.[3] In our experience, this inaction is due to the lack of clear guidance and underlying complexity of the exercise, which is leading employers to disengage from the inclusion of benefits.
- **Legacy Practices and Legal Ambiguities:** Existing practices such as grandfathering, unharmonised benefit packages due to M&A activity, and unclear or conflicting legislative requirements - including those arising from social partner negotiations - further complicate compliance efforts.

Acknowledging these challenges, we observed that, on the other hand, a reporting directive focused solely on salary could be misleading, as shown with the UK Gender Pay Reporting directive. The UK directive overlooked salary sacrifice arrangements leading to strange outcomes, such as senior leaders appearing to earn far less due to sacrificing substantial portions of their salary for pensions or other benefits.

Benefits can influence equity both directly and indirectly. Some benefits such as company cars may be available only to specific groups, often skewing toward men. Others which are agnostic require employees to make financial contributions—such as employer-matching pension schemes—and favour those with greater financial stability. Given that women are more often in a financially vulnerable position, they are less likely to take

[3] Mercer's Global Pay Transparency Report, European cut (Continental Europe, Nordics and Ireland)

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advantage of these offerings. Behavioural patterns also differ across genders. Even though some may state employers are not responsible for individual choices, these differences should be transparent to be able to have the debate if indeed employers and community are not in part responsible to advocate change.

As such, we concur that benefits should be part of pay transparency reporting to meet the objective of gender equity, but also understand the complexity of the exercise.

Recommendations:

- **Develop clear country guidelines for benefit valuations** to ensure consistency and comparability across industries to create a unified framework for benefit valuation. For example, a pragmatic approach for insured benefits is to allocate employer-paid premiums on a straightforward, consistent basis. This delivers transparency without imposing disproportionate administrative burden and can be easily explained to employees.
- **Introduce a dual reporting requirement** that distinguishes between adjusted pay gap based solely on base pay and associated allowances (similar to UK Gender Pay reporting requirements) and adjusted pay gap based on total remuneration, ensuring that the primary objective of addressing pay gaps is not overshadowed by diverting attention away from core base salaries.
- Propose a **transitional hybrid approach**, which will provide a comprehensive, though still partial, picture of total remuneration. This combines:
    - **Qualitative Approach:** Providing descriptive, qualitative information about employee benefits where specific monetary values are not immediately available. For example, explaining that employees receive life insurance coverage equal to four times their salary, without stating the employer's cost of providing this benefit.
    - **Payroll Data-Focused Approach:** Reporting only readily available quantitative data drawn from payroll records, such as employer pension contributions or taxable benefits reported on payslips. Employers should exercise caution when relying solely on payroll data, as differences in payroll treatment - such as between defined contribution and defined benefit pension schemes - can lead to significant distortions in reported benefit values.

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- **Limited scope:** We propose to limit the benefits evaluated in the transitional hybrid approach to **education, pension, medical, company cars and other company specific benefits known to be greater than 2% salary**, which have the greatest impact on overall equity.

- Encourage organisations, as part of overarching best practice, to:
    - Invest in HR technology and tools that streamline the process of benefit calculations and reporting requirements to help reduce the administrative burden and ensure accurate and consistent reporting.
    - Develop targeted communication campaigns to actively engage their workforce so that they are better educated about the value of their benefits. This will help mitigate the risk of benefits being undervalued and underutilised, while also reducing the likelihood of employee disengagement.
    - Equip management and HR to address perceived unfairness, handle employee questions and potentially guide employees to improve perception and valuation of benefits.

Right to Request Total Pay Information: Understanding the Value of the Benefits Component

As employees gain the right to request pay information under the Directive, a key question is: will they be able to make sense of a total remuneration figure that includes benefits?

The initial need to comply with legislation would bring employers to communicate the total rewards value in relation to the employee's peer group. Employees generally understand base salary and variable pay. However, when benefits such as employee assistance programmes, company cars, or parental leave are included into a single total figure, interpretation becomes more challenging. For many employees, such aggregated numbers will lack meaning, undermining the directive's goal of promoting clarity and comparability.

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This raises the question whether employees should instead request only payroll-based information. Although payroll data offers a partial picture of employee compensation, it is simpler to understand. Employees may not see their total remuneration and how much their employer invests in them, however, they will gain clarity on how they are rewarded compared to others based on pay statements they already understand.

From a transparency perspective, employees should ideally fully comprehend the total rewards package provided by their employer. Again, this would bring us to a hybrid approach of communication: the value of the employee remuneration package aligned to company communications (salary bands posted, pay statements) supplemented by the qualitative information of the benefits provided.

Recommendations:

- Employers should share:
  - The quantitative information which is recognisable to the employees, in line with what is provided on payslips, job requisitions and other (internal) communication, and
  - The qualitative information on the benefits provided, where quantitative numbers are not available. This will provide overall pay transparency, strengthening the employer brand and company culture.

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Realistic Timeline for Employers to Reduce the Pay Gap to less than 5%

Asking organisations to reduce an unexplained pay gap within a category of worker to below 5% within six months from reporting or, failing that, carry out a joint assessment with employee representatives under the threat of financial penalties, is, in our view, an overly ambitious goal unachievable for many.

Drawing on actual experience in the UK, organisations often face challenges in making substantial progress in closing their gender pay gaps within a single year. Research suggests that it typically takes at least two to three years for many HR and reward initiatives - from redesigning job architectures to updating pay frameworks, engaging stakeholders, and involving employee representative bodies - to be fully embedded, with significant shifts in the gender pay gap often only becoming evident over a period of three to five years.

Pay equity analysis and remediation is often focused on base pay, not the underlying root causes of pay or benefits policies. Pay gaps are often the result of deep-rooted structural and systemic issues, such as occupational segregation, unequal access to career progression opportunities, and historical disparities in pay. Tackling these issues requires the implementation of long-term strategies, such as reforms to recruitment, promotion, and retention practices, which cannot be effectively executed or deliver measurable outcomes within just 6 months.

Closing a significant pay gap often requires financial investment, such as raising the salaries of lower-paid employees or introducing new policies and programmes to tackle inequities. However, many organisations may lack the budgetary flexibility to implement these changes within a six-month timeframe without jeopardising their financial stability. According to Mercer's study, only 19% of organisations report increasing remediation or compliance budget in response to evolving pay transparency regulations.[4]

[4] Mercer's Global Pay Transparency Report, European cut (Continental Europe, Nordics and Ireland)

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Employers might encounter legal and contractual restrictions that prevent them from making immediate adjustments to employee compensation without risking valid claims of unfair treatment. For example, where employees are part of a collective bargaining agreement, employers are unable to unilaterally change terms without union renegotiation.

In addition, the directive states that unjustified differences must be remedied within a “reasonable time,” but it remains unclear whether member states will define this more concretely or leave it vague and subjective. Current guidance from the directive, as well as country-level interpretations, remains limited.

Recommendations:

- Adopting a longer-term phased approach with defined milestones and adequate timeframes, as this is likely to deliver more effective and sustainable outcomes. We suggest **a two-year timeline**, which would encompass two pay cycles, providing organisations with the opportunity to address more substantial and complex individual cases.

Reporting Distortions when Reporting by Legal Entity

In practice, reporting and equal pay assessments are anchored at the level of the employer, which under EU and national labor law is typically interpreted as the individual legal entity (company) rather than the broader corporate group. This is consistent with how obligations apply to “employers” under EU law and is reflected in legal and advisory guidance on the Directive. However, distortions can arise in conglomerate structures.

In many multinational or diversified groups:

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- Teams and categories of workers may operate **across multiple legal entities** within an organisation (e.g., shared services, matrix organisations, regional product teams).
- Employees performing **the same work or work of equal value** may be contractually employed by different legal entities for historical, tax, regulatory, or risk-management reasons.
- Pay decisions (job architecture, market pricing, incentive design) are often made at **group or business-line level**, not per legal entity.

When equal pay assessments are forced to stop at legal-entity boundaries:

- **Artificial pay gaps** may appear because comparator groups are incomplete or too small.
- Legitimate differences in role distribution across entities can **inflate or mask gender pay gaps**.
- Employers may be required to conduct remediation within a single entity even though pay is governed by **group-wide frameworks**.

In some cases, this creates a **misalignment between legal compliance mechanics and economic reality**, potentially undermining the Directive's objective of accurately identifying and remedying pay discrimination.

Recommendations:

- **Allow group-level equal pay assessments where work is organised cross-entity:** introduce an explicit provision allowing Member States to permit **group-level equal pay assessments** where:
    - Workers perform the same work or work of equal value across multiple legal entities within an organisation, and
    - Pay-setting is effectively determined at group, regional, or business-line level.

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- **Introduce a "functional employer" concept for pay transparency purposes:** define a "functional employer" for pay transparency and equal pay assessment purposes, based on:
  - Common job architecture and evaluation methodology,
  - Centralised pay-setting or approval processes.

  Under this concept, multiple legal entities could be treated as a **single assessment perimeter** where these criteria are met.

Equal Pay for Equal Positions in Cross-Border Teams excludes Cost of Living Considerations

Although the EU Pay Transparency Directive mandates equal treatment for employees within the same legal entity in a given Member State, businesses operating across multiple countries will inevitably face challenges in ensuring equal pay among cross-border teams, particularly where such teams are governed by overarching group-level policies. The same challenge may occur in case an employee carries out the activity in different countries during a certain period.

The directive refers to the "employer provided value" which may allow for location-based adjustments. Given that the same amount does not represent the same value in every country because cost of living, statutory minimum wages, cultural expectations and labour markets vary, salary comparisons will be skewed. It is essential to develop measurement criteria that enable standardisation across Member States while neutralising the impact of such local variables.

To this end, within the scope of the data collection and reporting activities mandated by Article 29 of the Directive for the monitoring body, it would be beneficial if the EU Regulator establishes predetermined criteria (e.g. neutralising the impact of cost of living or allowing to factor in legal minimum wages) that facilitate the harmonisation of data across Member States. Such criteria should enable meaningful cross-border comparisons and provide employers with assurance that, once the effects of cost of living and other local particularities are accounted for, the principle of equal pay is being upheld

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in a broader context than the one established by the Directive, but of the utmost importance for developing meaningful and useful benefit related system.

Recommendations:

- **Establish standardised parameters and criteria** (e.g. neutralising the impact of cost of living or allowing to factor in legal minimum wages) for harmonising locally collected pay data across Member States, enabling companies with multi-jurisdictional operations to assess the equitable treatment of their workforce on a comparable basis.

Competitivity of Employers when Total Pay is Public

The benefits for organisations adopting fuller pay transparency are clearly highlighted in this paper, particularly in terms of enhancing their employer value proposition. Transparent organisations are perceived as more ethically committed, making them more appealing to top talent, which subsequently drives higher levels of employee engagement and retention.

This approach also fosters a culture of openness and collaboration, helping to minimise perceptions of bias or favouritism. According to the 2022 Figures Pay Transparency Study, pay transparency can significantly reduce an organisation's pay gap. The study revealed that across 450 participants - many of whom appear to be already well ahead on their pay transparency journey - fully transparent companies had an average pay gap of 0%, compared to partially transparent companies with a gap of 2% – 2.6%, and non-transparent companies with an average gap of 3.5%.

Nevertheless, there are legitimate concerns that publicly disclosing salary ranges might hinder organisations' ability to negotiate effectively with candidates. Transparency could reduce the flexibility to negotiate and provide customised compensation packages that account for individual skills, experience, or unique circumstances. This, in turn, might affect employee engagement if there is less scope for rewarding individual performance.

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In addition, organisations may worry that candidates will anticipate being offered salaries at the higher end of the disclosed range, irrespective of their qualifications or the specific requirements of the role. This could create difficulties in managing candidate expectations and ensuring a fair and balanced approach to compensation.

Another potential risk is the impact on competition within the labour market. By making salary ranges public, organisations may inadvertently provide competitors with valuable insights into their pay structures, or risk engaging in tacit collusion in wage-setting. Research in the US presents mixed findings on pay transparency. One study from Colorado found that posted salary ranges increased by 3.6% after pay transparency was implemented. However, another US study indicates that *internal* pay transparency may also narrow salary bands toward the lower end of the band, potentially leading to lower overall wages.

Some employers express concern in relation to the potential impact on internal dynamics. Publishing pay ranges would prompt employees to scrutinise their own pay in comparison to the published ranges, leading to questions about fairness and equity. The actual impact on the current employee population largely depends on how they have been treated to date and whether they perceive their compensation as fair. Employees are currently already developing a view on how they are compensated and transparency may actually debunk myths and perceptions they may hold.[5] [6] Disclosing pay ranges may also increase the number of job applicants, as was the case for 70% of employers in a US Study.

Despite these challenges, pay transparency also presents a unique opportunity for organisations to strengthen their competitive position. By embracing pay transparency as a strategic advantage, companies can not only mitigate potential risks but also position themselves as leaders in fairness and equity, ultimately driving long-term success. Taking into account that younger generations are known to focus less on actual pay and more on the overall company culture, alignment to their personal beliefs, work-life balance, recognition and personal developments, leading employers are already rethinking their employee value proposition and moving this to a more holistic approach.

[5] https://hbr.org/2023/02/research-the-complicated-effects-of-pay-transparency
[6] https://hbr.org/2025/08/new-research-debunks-a-common-criticism-of-pay-transparency

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Recommendations:

- Encourage organisations, as part of overarching best practice, to:
    - Have a clearly articulated employer brand which provides the baseline for the organisation's compensation and benefits framework, company culture and values.
    - Document the job architecture and performance cycles to consistently sustain pay and promotion decisions.
    - Conduct regular market benchmarking to stay competitive and align salaries with industry standards.
    - Equip management to maintain open and clear communication with employees about how pay decisions are determined.

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Summary of Key Recommendations

1. **Develop clear country guidelines for benefit valuations** to ensure consistency and comparability across industries to create a unified framework for benefit valuation. For example, a pragmatic approach for insured benefits is to allocate employer-paid premiums on a straightforward, consistent basis. This delivers transparency without imposing disproportionate administrative burden and can be easily explained to employees.
2. **Introduce a dual reporting requirement** that distinguishes between adjusted pay gap based solely on base pay and associated allowances (similar to UK Gender Pay reporting requirements) and adjusted pay gap based on total remuneration, ensuring that the primary objective of addressing pay gaps is not overshadowed by diverting attention away from core base salaries.
3. Propose a **transitional hybrid approach**, which will provide a comprehensive, though still partial, picture of total remuneration. This combines:
    a. **Qualitative Approach:** Providing descriptive, qualitative information about employee benefits where specific monetary values are not immediately available. For example, explaining that employees receive life insurance coverage equal to four times their salary, without stating the employer's cost of providing this benefit.
    b. **Payroll Data-Focused Approach:** Reporting only readily available quantitative data drawn from payroll records, such as employer pension contributions or taxable benefits reported on payslips.
    c. **Limited scope:** Limit the benefits evaluated in the transitional hybrid approach to **education, pension, medical, company cars and other company specific benefits known to be greater than 2% salary**, which have the greatest impact on overall equity.
4. When receiving a request from an employee on total remuneration, employers should share **quantitative** information provided on payslips and **qualitative** information on the benefits provided, where quantitative numbers are not available.
5. Adopting a longer-term phased approach with defined milestones and adequate timeframes, over a two-year timeline.

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6. **Allow group-level equal pay assessments where work is organised cross-entity:** introduce an explicit provision allowing Member States to permit **group-level equal pay assessments** where:
    a. Workers perform the same work or work of equal value across multiple legal entities within an organisation, and
    b. Pay-setting is effectively determined at group, regional, or business-line level.
7. **Introduce a "functional employer" concept for pay transparency purposes:** define a "functional employer" for pay transparency and equal pay assessment purposes, based on:
    a. Common job architecture and evaluation methodology
    b. Centralised pay-setting or approval processes

    Under this concept, multiple legal entities could be treated as a **single assessment perimeter** where these criteria are met.
8. **Establish standardised parameters and criteria** (e.g. neutralising the impact of cost of living or allowing to factor in legal minimum wages) for harmonising locally collected pay data across Member States, enabling companies with multi-jurisdictional operations to assess the equitable treatment of their workforce on a comparable basis.
9. Encourage employers, as part of overarching best practice, to:
    a. Have a clearly articulated employer brand which provides the baseline for the organisation's compensation and benefits framework, company culture and values.
    b. Document the job architecture and performance cycles to consistently sustain pay and promotion decisions.
    c. Conduct regular market benchmarking to stay competitive and align salaries with industry standards.
    d. Equip management to maintain open and clear communication with employees about how pay decisions are determined.

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