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FISCAL ANALYSIS OF FEDERAL PAY EQUITY



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

To assist parliamentarians in their role to scrutinize the raising and spending of public monies, this report provides an overview of the spending measures associated with the Government of Canada's proactive pay equity regime within the federal public and private sectors.

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Executive Summary

In December 2018 the *Pay Equity Act* (the *Act*) received Royal Assent. The *Act* established a proactive pay equity regime within federally regulated public and private sectors. Approximately 1.3 million employees fall under the aegis of the *Act*: about 390,000 in the public sector and 900,000 in the private sector.

While Budget 2018 and the 2018 Fall Economic Statement identified new money to establish the Government's new administrative framework for the *Act*, no details were provided regarding the anticipated fiscal impact arising from consequential changes to remuneration.

Based on information provided to the Office of the Parliamentary Budget Officer (PBO) by the Government of Canada, we estimate that:

- The ongoing cost for regulatory oversight in federally regulated sectors of the economy is \$5 million; and,
- The ongoing administration of pay equity within the federal public service is estimated to be \$9 million.

These figures are generally comparable to the Government's own estimates.

Summary table 1

Summary of Administrative Framework Expenses

\$ millions

PBO estimate	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (ongoing)	Total
Regulatory oversight	1	3	5	4	5	5	5	29
Administering of pay equity within the federal public service	-	2	3	9	13	13	9	49
Total	1	5	8	13	18	18	14	78

Sources: Employment and Social Development Canada, Canadian Human Rights Commission, Administrative Tribunal Support Services of Canada, Treasury Board Secretariat of Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

The PBO requested the Government's fiscal analysis of how much more money is expected to be spent to comply with the legislation. However, the Government refused to share this data, citing confidence of the Queen's Privy Council for Canada as defined in subsection 39(2) of the *Canada Evidence Act*.

Nevertheless, PBO used alternate sources in its analysis of employee compensation for the core federal public service. These data suggest that once the *Act* is fully implemented, the federal wage bill could rise by \$477 million starting in 2023-24. Increased pension and other employee benefit contributions estimated to be an additional \$144 million, bring the total ongoing annual cost to \$621 million. This fiscal impact is projected to grow in line with PBO's projection of public sector employee growth and compensation.

PBO's analysis captures approximately 30% of the federally regulated workforce. It does not include Crown Corporations, the Prime Minister's and ministers' offices, parliamentary institutions, nor the private sector. Therefore, the impact on all federally regulated workplaces will likely be substantially greater.

Given the depth of expertise required and possession of employee-level administrative data, the federal government itself is best-placed to report on the cost implications to employee compensation. Parliamentarians may wish to encourage the federal government to provide estimates of expected increases to federal public service employee salaries, along with analysis of potential impacts on pensions and other future benefits.

1. What is the Pay Equity Act?

On December 13, 2018, the *Pay Equity Act* received Royal Assent. At the time of publication, regulations to bring the *Act* into force have not yet been published in Part I of the *Canada Gazette*. The federal government expects the *Act* will come into force in late 2020 or early 2021.

The *Act* ensures that workplaces provide equal pay for work of equal value; which is distinct from equal pay for equal work (see Box 1).^{1,2}

Box 1: Pay Equity vs. Equal Pay for Equal Work

The two concepts can appear identical; however, they are very different. Equal Pay for equal work refers to situations where men and women perform the same work; which involves the same level of skill, effort, responsibility, and working conditions. Therefore, under the *Employment Standards Act*, they must receive the same pay.

In contrast, Pay Equity refers to situations where employees perform work of equal value; where the comparable value is based on the comparable level of skill, effort, responsibility, and working conditions. Pay Equity ensures that men and women performing different jobs of comparable value are compensated equally.

Adapted from the Pay Equity Commission of Ontario.

The *Pay Equity Act* applies to federally regulated workplaces with 10 or more employees. This includes the private and public sector, parliamentary institutions, and the Prime Minister's and ministers' offices. Once the *Act* comes into force, employers will have three years to establish a pay equity plan(s).

The development of a plan will require employers to identify job classes by grouping positions with similar duties and responsibilities, qualifications as well as compensation plans, and within the same range of salary rates.

To determine the gender predominance of a given job class, occupancy rates are examined. Generally, a job class is said to be predominantly female if at least 60% of the positions are occupied by women (or have been historically occupied by women).³

For job classes that are determined predominantly male or female, the value of the work must be evaluated by the type of skills, efforts, responsibilities, and working conditions to carry out the work. The same method must be used for all job classes.

The hourly rates of compensation associated with each job class are calculated and includes salaries, commissions, vacation, pay, benefits, and employer contributions to pension funds. It excludes differences that do not discriminate based on gender such as, seniority, shift-premiums, overtime, or geographic location of work.

These hourly rates of compensation for those predominantly female and male job classes are compared. The *Pay Equity Act* sets out two methods for comparing compensation for predominantly female and predominantly male job classes: the Equal Average method and the Equal Line method.⁴

The Equal Average Method

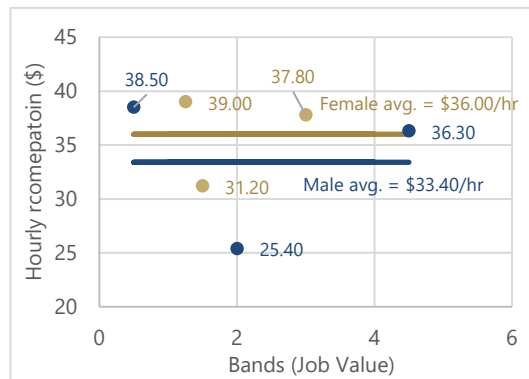
The Equal Average method equates the average compensation of predominantly female job classes to the average compensation of predominantly male job classes. A predominantly female job class will be owed an increase in compensation if two conditions are met; (i) the average

compensation of all predominantly female job classes is below that of all predominantly male job classes; and, (ii) the compensation received in the predominantly female job class is below the average compensation of all predominantly male job classes.

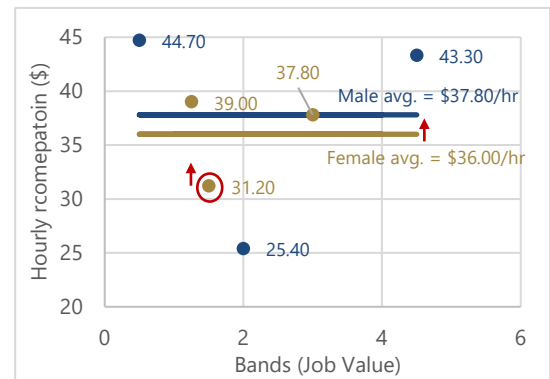
Scenarios 1 and 2 (below) present the technical application. In the first scenario, the average compensation in female dominated job classes is greater than the average compensation in male dominated job classes (\$36.00/hr versus \$33.40/hr). As such, there is no requirement to adjust compensation in any of the female dominated job classes.

In contrast, the second scenario depicts a situation where the average compensation of predominately female job classes (\$36.00/hr) is below the male average (\$37.80/hr). As such, the circled predominately female job class (\$31.20/hr) which is lower than the average compensation for comparable predominantly male job classes will receive a \$5.40/hr raise to eliminate the pay gap.

Scenario 1



Scenario 2

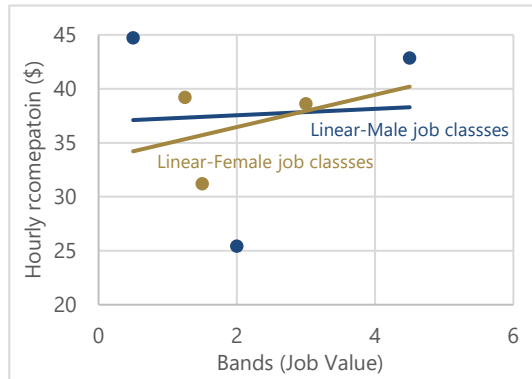


The Equal Line Method

The Equal Line method uses a different technical approach to identify a statistical relationship between compensation and job complexity in job classes. A predominantly female job class will be owed an increase in compensation if two conditions are met; (i) the female cost line is entirely below the male cost line; and, (ii) the compensation in the predominantly female job class is below the predominantly male cost line.

In scenario 3, the cost lines for female and male-dominated job classes intersect. As such, an employer must apply rules prescribed in forthcoming regulations for comparing compensation. In scenario 4, the cost line for the predominately female job classes is entirely below the cost line for predominantly male job classes. As such, the circled predominately female

job classes that are lower than the cost line for comparable predominantly male job classes will receive a raise until the predominantly female and predominantly male cost lines coincide.

Scenario 3**Scenario 4**

Once an employer posts their pay equity plan(s), any increases in compensation that are owed to employees in predominantly female job classes become payable the day after the posting of plan(s).⁵ Employers will also be required to review and update their pay equity plans every five years.

See Appendix A for the main provisions of the *Pay Equity Act* for employers to implement pay equity in the workplace.

2. Fiscal Analysis

The *Pay Equity Act* will require the Government of Canada to fulfill two roles:

- The first is an oversight role in administering the *Act* and its regulations, ensuring compliance among all federally regulated employers.
- The second role is as an employer implementing the necessary compensation practices within the federal public service.

PBO requested information from Treasury Board Secretariat of Canada (TBS) regarding the valuation of administering this legislation and implementing a proactive pay equity regime within the federal public service.

Information related to the administering the provisions of the *Pay Equity Act* and administering it within the federal public service was provided. While TBS classified this information as confidential it was used to guide our analysis.

TBS refused to disclose information or data regarding employee compensation. This included the number of employees impacted in each occupational group, and related increases in employee wages and benefits attributed to the *Pay Equity Act*. The information was deemed to be a confidence of the Queen's Privy Council for Canada as defined in subsection 39(2) of the *Canada Evidence Act*. Therefore, PBO relied on publicly available sources in its analysis of employee compensation for the federal public service.

2.1. Regulatory Oversight

The federal government initially earmarked \$26.6 million over six years for regulatory oversight in the 2018 Fall Economic Statement, starting in 2018-19. This money will be used to complete any remaining legislative and implementation work, to establish and operate a new Office of the Pay Equity Commissioner within the Canadian Human Rights Commission (CHRC), and to support the Canadian Human Rights Tribunal (CHRT) with its new adjudicative role.

Legislative and Implementation Work

The federal government continues to develop the regulations necessary to bring the *Pay Equity Act* into force. A discussion paper to guide consultations to develop these regulations was shared in Spring 2019 with federally regulated employers and employees subject to the *Act*. Regulations are

expected to be pre-published in Part I of the *Canada Gazette* in late fall 2020 or early 2021.⁶

PBO anticipates the remaining legislative and regulatory work necessary to implement the *Pay Equity Act* can be completed using the existing resources for pay equity within the Labour Program at ESDC.

Office of the Pay Equity Commissioner

The *Pay Equity Act* established a Pay Equity Commissioner (Commissioner) within the CHRC to oversee the development, implementation, and evaluation of pay equity measures in federally regulated workplaces.

Costs related to the staffing of the office were calculated using information from PBO information request IR0499 and annual reports from the Ontario and Quebec pay equity commissions. Annual salary information was drawn from the PBO Personnel Expenditure Tool.⁷

The expected number of full-time equivalent (FTE) staff for the office resulting from this new legislation were adjusted separately based on the size of the federally regulated workforce relative to regulated workforces of Ontario and Quebec. More weight was assigned to the workload in Quebec as the federal system will likely be similar.

Work to establish the Office of the Pay Equity Commissioner began in late 2019-20 with the appointment of the first Pay Equity Commissioner and initial staffing of the Pay Equity Office. We assume that the Pay Equity Division will likely be fully staffed by 2020-21.

Canadian Human Rights Tribunal

The CHRT is a quasi-judicial body that is established and operated independently of the CHRC. It is responsible for adjudicating disputes arising under the *Pay Equity Act*.

Amendments were made to the *Canadian Human Rights Act* to allow the Pay Equity Commissioner to address complaints of discriminatory practices related to pay equity in federally regulated workplaces. The expanded mandate of the CHRT requires the creation of a new Secretariat within the Administrative Tribunal Support Services of Canada to provide the necessary support and services. It is anticipated that it will be fully staffed by 2021-22. The additional caseload will require the appointment of additional members to the CHRT allowing for the inclusion of knowledge of pay equity matters.

The cost estimate was based on information from PBO information request IR0498 and annual reports from the Ontario and Quebec pay equity

commissions and tribunals. The PBO Personnel Expenditure Tool was used to estimate annual salaries.

The expected number of FTE staff for the Secretariat was determined using caseloads in Ontario and Quebec. Figures from both jurisdictions were adjusted based on size of the federally regulated workforce relative to provincially regulated workforces in Ontario and Quebec.

Results

Table 2-1 presents PBO's cost estimate of the regulatory oversight expenses. Ongoing annual costs are estimated to be \$5 million. The estimate accounts for recent developments since the initial cost estimate by the federal government in the 2018 Fall Economic Statement. Much of the funding is allocated to support the administering of the *Pay Equity Act* by the Office of the Pay Equity Commissioner within the CHRC.

Table 2-1 Summary of Regulatory Oversight Expenses

\$ millions

PBO estimate	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (ongoing)	Total
Employment and Social Development Canada	1	1	1	0	0	0	0	3
Canadian Human Rights Commission	0	2	3	3	4	4	4	19
Administrative Tribunal Support Services of Canada	0	0	1	1	2	2	2	7
Total	1	3	5	4	5	5	5	29

Sources: Employment and Social Development Canada, Canadian Human Rights Commission, Administrative Tribunal Support Services of Canada and Parliamentary Budget Officer.

Note: Expenses reported over seven years. Totals may not add due to rounding.

2.2. Pay Equity in the Federal Public Service

The 2018 Fall Economic Statement earmarked \$49.4 million over six years, starting in 2018-19, to implement a pay equity regime *within* the federal public service. This figure only pertains to the development of an internal administrative framework and technical studies. It excludes any fiscal exposure arising from consequential increases in federal employee compensation.

Administering Pay Equity in the Federal Public Service

The federal government began developing an approach to implement proactive pay equity in the federal public service in 2019-20. This included additional staffing at TBS for preparatory work in advance of the *Pay Equity Act* coming into force.

As noted earlier, once the *Pay Equity Act* comes into force, the federal government will have three years to establish a pay equity plan(s) which details the different job classes within the federal public service, (see Appendix A for the main provisions of the *Act* for employers to implement pay equity in the workplace). Since the *Act* is expected to come into force late 2020-21, the pay equity plan(s) for the federal public service would likely be finalized late 2023-24. These plans will need to be reviewed and updated every five years.

Table 2-2

Adminstration of Pay Equity within the Federal Public Service Expenses

\$ millions

PBO estimate	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (ongoing)	Total
Treasury Board Secretariat	-	2	3	9	13	13	9	49

Sources: Treasury Board Secretariat of Canada and Parliamentary Budget Officer.

Notes: Expenses reported over seven years. Totals may not add due to rounding.

Additional expenses are first incurred in 2019-20, one year later than reported in the 2018 Fall Economic Statement.

The ongoing additional annual cost to administer proactive pay equity is estimated to be \$9 million. The PBO figures were calculated using information from PBO information request IR0452, as well as accounting for recent developments since the initial funding envelope was announced in the 2018 Fall Economic Statement.

Federal Public Service Employee Compensation

As noted earlier, the Government refused to share data with the PBO necessary to apply either of the pay equity methodologies identified in the *Pay Equity Act*. However, the Government has publicly stated that once the *Act* is fully implemented, the gender wage gap in the core public administration will be reduced by 2.7 cents (from 91.7 cents to 94.4 cents on the dollar).⁸ As such, PBO calculated the implicit cost of this reduction.

Our analysis relied upon data from the Labour Force Survey. Using the Government's estimated reduction in the gender wage gap, estimated hourly wage of all female employees was increased by 2.7%. The financial costs arising from compensating all impacted employees were calculated by multiplying the estimate hourly wage rate with a standard 37.5 work week and by 52 weeks in a year.⁹ Annual personnel expenditure information was drawn from the PBO Personnel Expenditure Tool. Appendix B provides more details regarding the data sources and methodologies.

PBO estimates the cost of implementing the proactive pay equity legislation by increasing eligible employee's salaries to be \$477 million. The impact on pensions and other employee benefits is an additional \$144 million, for a grand total of \$621 million (Table 2-3).

Table 2-3 Estimated Increase in Employee Compensation

\$ millions

	PBO estimate	Starting in 2023-24
Employee salaries		477
Pensions and other employee benefits		144
Total		621

Sources: Statistics Canada and Parliamentary Budget Officer.

Notes: Figures show total increase in compensation due to proactive pay equity. These costs are calculated in line with annual changes in compensation and PBO projections of public sector employees. Employer contributions to CPP/QPP and Employment Insurance are not included. It is assumed annual maximums are attained by most employees before the application of pay equity.

Once the plan(s) are completed and the final version(s) posted, the federal government must increase the compensation of all affected employees. The increases in compensation will be payable in full the day after the plan(s) are posted. It is anticipated this will take place late 2023-24, with the possibility of phasing-in the increases over a maximum of three to five years.

This analysis captures approximately 30% of the federally regulated workforce. Of the approximately 1.3 million employees in the federally regulated workforce, approximately 390,000 are public sector employees and 900,000 are private sector employees. As a result, the impact on employee compensation in the federally regulated workforce attributed to proactive pay equity will likely be substantially greater.

Appendix A: Implementing Pay Equity in the Workplace

Gender predominance and comparability are important elements of establishing a proactive pay equity regime within the workplace. Once the *Pay Equity Act* comes into force, federally regulated employers of 10 or more employees will need to negotiate, develop, implement, and maintain one or more pay equity plans. Employers will have three years to implement these plans. The main provisions in the Act include:

- establishing pay equity committees (sections 16 to 30);
- negotiating and developing pay equity plans at the pay equity committees:
 - a) identifying job classes (sections 32 to 34),
 - b) determining gender predominance (sections 34 to 40),
 - c) determining value of work methodology, job information, assessment of the value of work for predominantly male and predominantly female job classes (sections 41 to 43),
 - d) calculating the compensation for predominantly male and predominantly female job classes (sections 44 to 46),
 - e) comparing compensation methods - Equal Average, Equal Line or another method under certain conditions (sections 47 to 50),
 - f) content and posting of draft and final pay equity plans (sections 51 to 55);
- increases in compensation under the pay equity plans (sections 60 to 63);
- maintaining pay equity plans – plans must be updated every five years (sections 78 to 88); and
- filing annual statements with the Pay Equity Commissioner (section 89).

To establish comparability across jobs performed either by men or women, job classes are considered. Job classes are defined as one or more positions that have similar duties, responsibilities, qualifications, and recruiting procedures. While the work performed in the comparable job classes does not have to be identical, its value must be comparable. For a job class to be comparable in value, it must consider the skill, effort, responsibility, and the conditions under which the work is performed. Jobs that fall within the same value range, or *job band*, are deemed comparable.

Appendix B: Data and Methodology

Employees under federal jurisdiction include those working for the core federal public service, Crown Corporations, Royal Canadian Mounted Police (RCMP), Canadian Armed Forces (CAF) and federally regulated private sector. This analysis focused on employees working in the core public service, RCMP, and CAF in 2018-19 – whose salaries are from the federal government.¹⁰ Various sources were used to obtain the population of interest.

Data Sources

Statistics Canada's Police Administration Survey was used to determine the number of RCMP police officers.¹¹ The 2019-20 Departmental Plan from the Department of National Defence was consulted for the number of CAF officers.¹² The total number of employees in the core federal public service was obtained from GC InfoBase for the year 2018-2019.¹³

Statistics Canada's Labour Force Survey (LFS) was used. The LFS is a monthly household survey which collects data on valuable labour market indicators. In using monthly aggregated LFS series from 2019, this report did not consider the long-term impacts of COVID-19 on the Canadian labour market.

Additionally, PBO's annualized rates of growth in public sector employees and compensation were applied to project total future costs.

Methodology

Defining the population of interest

LFS variables were used as proxies to filter for the population of interest, primarily by filtering for public sector respondents working in Public Administration.¹⁴ LFS counts were scaled down by the calculated sum of core public servants, RCMP, and CAF officers. This was essential in estimating the subset of federal public servants from all public sector respondents (which may include local, provincial, territorial, and federal public servants).

Breakdown of employees by sex

The LFS provided a breakdown of the number of employees in the population of interest by sex.¹⁵ The sex of the employees in each job class was used to identify gender dominance. The breakdown of employees working in the core public service by sex allowed this analysis to simulate the salaries received by male and female employees prior to and following pay equity adjustments.

Hourly wages of employees

In choosing to examine hourly wages, as opposed to other measures of earnings, this analysis followed previous research in examining gender differences in pay for an equal unit of work across each job class.¹⁶

Notes

1. For more information on Employment Equity in Canada's Federal Public Service, see <https://hillnotes.ca/2020/08/13/employment-equity-in-canadas-federal-public-service/> (Retrieved August 14, 2020).
2. Pay Equity Commission of Ontario. (2020). Pay Equity and Equal Pay: What is the Difference?. http://www.payequity.gov.on.ca/EN/AboutUs/Pages/the_difference.aspx (Retrieved August 31, 2020).
3. The definition of gender predominance is: 70% if the occupational group has fewer than 100 employees; 60% if the group has more than 100 but fewer than 500; and 55% if the group has 500 or more. Occupational groups are gender-neutral if the percentages are lower than those in the Guidelines. <https://www.canada.ca/en/employment-social-development/programs/pay-equity/guide.html> (Retrieved August 17, 2020).
4. Employers are not limited to the two pay equity mechanisms prescribed in the Act. Subsection 48(1) of the *Pay Equity Act* authorizes employers who determine that neither method can be used to use a separate method that is authorized by the Pay Equity Commissioner.
5. Medium- to large-sized employers must complete the phase-in of increases in compensation six years after becoming subject to the *Pay Equity Act*. Small sized employers have a phase-in period of eight years.
6. The regulations will outline elements that federally regulated employers must consider when implementing proactive pay equity to their workplace. See Employment and Social Development Canada (ESDC). (2020). Forward Regulatory Plan: 2020 to 2022. <https://www.canada.ca/en/employment-social-development/programs/laws-regulations/labour/forward-regulatory/plan.html#h2.15> (Retrieved September 25, 2020).
7. A more detailed discussion of PBO's Personnel Expenditure Analysis Tool is available at: <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-021-S--personnel-expenditure-analysis-tool--outil-examen-depenses-en-personnel>. (Retrieved September 10, 2020).
8. Finance Canada. (2018). Budget 2018. <https://www.budget.gc.ca/2018/docs/plan/budget-2018-en.pdf> (Retrieved August 4, 2020).
9. Choosing a standard work week of 37.5 hours is consistent with the employment practices of the Public Service of Canada.
10. Data on the number of employees in Crown Corporations was not available.
11. Greenland, J. & Alam, S. (2016). *Police Resources in Canada, 2016*. Statistics Canada. <https://www150.statcan.gc.ca/n1/en/pub/85-002-x/2017001/article/14777-eng.pdf?st=sQTx2tZ5> (Retrieved September 24, 2020).
12. Department of National Defence. (2019). Departmental Plan 2019-20: Spending and Human Resources. <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/departmental-plans/departmental-plan->

- [2019-20-index/spending-human-resources.html#sec2](#) (Retrieved September 24, 2020).
13. Treasury Board Secretariat (TBS). (2020). InfoBase: Total Federal Public Service Population (March 2015-March 2019). <https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#orgs/gov/gov/infograph/people> (Retrieved September 24, 2020).
 14. The LFS defines Public Administration as “[A] sector [which] comprises of establishments primarily engaged in activities of a governmental nature... legislative activities, taxation, national defence, public order and safety, immigration services, foreign affairs and international assistance, and the administration of government programs are [such] activities”. Source: Statistics Canada. (2018). North American Industry Classification System (NAICS) Canada 2012 Guide. <https://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TV=118464&CVD=118465&CPV=91&CST=01012012&CLV=1&MLV=5> (Retrieved August 4, 2020).
 15. The LFS provides information on the personal characteristics of the working-age population, including age, sex, marital status, educational attainment, and family characteristics. A more detailed explanation of ‘classification by sex’ used by Statistics Canada is available at: <https://www23.statcan.gc.ca/imdb/p3Var.pl?Function=DEC&Id=24101> (Retrieved August 4, 2020).
 16. Pelletier, R., Patterson, M., & Moyser, M. (2019). *The Gender Wage Gap in Canada: 1998 to 2018*. Statistics Canada. <https://www150.statcan.gc.ca/n1/en/pub/75-004-m/75-004-m2019004-eng.pdf?st=lx-CpAxA> (Retrieved August 4, 2020).