November 30, 2021

EXPANDED 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.

During the 43rd Parliament, Ms. Jag Sahota, M.P. (Calgary Skyview), Ms Nelly Shin, M.P. (Port Moody - Coquitlam) and The Honourable Alice Wong, M.P. (Richmond Centre) expressed interest in an update to the PBO report *Fiscal Analysis of Federal Pay Equity*, particularly in reference to regulations related to the *Pay Equity Act* posted in the *Canada Gazette*.

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RP-2122-018-S_e

Table of Contents

Executive Summary

During the 43rd, Ms. Jag Sahota, M.P. (Calgary Skyview), Ms Nelly Shin, M.P. (Port Moody - Coquitlam) and The Honourable Alice Wong, M.P. (Richmond Centre) expressed interest in an update to the PBO report *Fiscal Analysis of Federal Pay Equity*, particularly in reference to the draft Pay Equity Regulations posted in the *Canada Gazette*, Part I. Final regulations have since been released and the *Pay Equity Act* (the *Act*) came into force on August 31, 2021.[1]

In response, this report provides a revised and expanded estimate of the net fiscal impact of the *Act* on the federal government. It includes increases in compensation costs to the federal government as an employer and the impact on federal personal income tax revenue arising from proactive pay equity in all federally regulated public and private sectors.

Summary Table 1 presents the estimated net fiscal impact resulting from increases in compensation during the first two years of a proactive pay equity regime.[2] PBO finds the estimated net fiscal impact to be $385 million in 2025-26, the first full fiscal year under this regime. Ongoing annual compensation costs are expected to grow in line with PBO's projections of the number of employees and the compensation in the public sector. The estimated net fiscal impact in 2024-25 is adjusted to reflect that employers must post their final pay equity plans no later than three years after becoming subject to the *Act* and increases in compensation become payable.

Summary Table 1 Estimated net fiscal impact of federal pay equity

$ millions	**2024-25 (starting September 1, 2024)**	**2025-26 (ongoing)**
(A) Total Public Service of Canada compensation cost	$346	$620
(B) Personal Income tax revenue	$132	$235
(A - B) Net fiscal impact	$215	$385

Source: PBO's calculations

Notes: Figures show total increase in compensation and personal income taxes paid due to proactive pay equity. Total compensation cost reflects the fiscal cost of increased salaries and benefits to the federal government as an employer. Total personal income tax revenue reflects the fiscal revenue arising from proactive pay equity in all federally regulated public and private sectors. Figures may not add up due to rounding.

1. Introduction

On December 8, 2020, the Parliamentary Budget Officer testified at the Standing Committee on the Status of Women (FEWO) about the PBO report *Fiscal Analysis of Federal Pay Equity*. On March 3, 2021, Ms. Jag Sahota, M.P. (Calgary Skyview), Ms Nelly Shin, M.P. (Port Moody - Coquitlam) and The Honourable Alice Wong, M.P. (Richmond Centre) expressed interest in an update to the report, particularly, in reference to the draft Pay Equity Regulations posted in the *Canada Gazette*, Part I. Final regulations have since been released and the *Pay Equity Act* (the *Act*) came into force on August 31, 2021.[3]

In response, this report provides a revised and expanded estimate of the employee compensation costs for the federal government due to the establishment of a proactive pay equity regime.

In addition, the report provides an estimate of the increased federal personal income tax revenue due to increased employee compensation from the implementation of the *Act* in all workspaces under the federal jurisdiction.

The *Act* covers approximately 1.3 million employees in 2020-21, or about six percent of Canada's workforce. This includes employees working for the Public Service of Canada (PSC), as well as those in the Federally Regulated Private Sector (FRPS) and Crown Corporations.

For additional information on the administrative and regulatory costs of implementing a proactive pay equity regime in workspaces under federal jurisdiction, refer to the PBO's previous report, *Fiscal Analysis of Federal Pay Equity*. That report estimated $14 million per year in ongoing administrative and regulatory costs for the federal government.

2. Cost Estimate

The *Act* ensures that federally regulated workspaces with 10 or more employees provide equal pay for work of equal value. In 2020-21, federally regulated workspaces with 10 or more employees comprised of approximately 435,100 employees in the PSC, and approximately 823,500 employees in the Federally Regulated Private Sector (FRPS) and Crown Corporations.

For the purposes of this report, PSC employees includes those in the Core Public Administration (CPA), the Canadian Armed Forces (CAF), the Royal Canadian Mounted Police (RCMP), Special Agencies and Parliamentary entities (including the House of Commons, the Senate, and other Parliamentary Agents).[4, 5]

Increases in PSC employee salaries due to the *Act* and subsequent increases in employer contributions to the Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Employment Insurance, as well as employer contributions to employment pension and benefits constitute a direct cost for the federal government. The associated increase in federal personal income tax revenue is a direct revenue for the government.

In contrast, increases in employee salaries and subsequent increases in employer contributions to the CPP/QPP and Employment Insurance, as well as employment pension and benefits in the FRPS and Crown Corporations is not a direct cost for the government.[6] However, any increase in federal personal income tax revenue associated with those employees' increased salaries is a direct revenue for the federal government.

Data and Methodology

The estimate used employee counts, maximum annual salaries, total salaries and allowances paid by gender and effective classification in the CPA, by department/agency, including Special Agencies and the RCMP, all obtained from Treasury Board Secretariat (TBS) under Information Request IR0589.[7] This enabled for more detailed, granular estimate of compensation costs to the federal government. Employee counts and average salaries in the CAF were obtained from the PBO Canadian Military Force Structure Model. Various financial statements and annual reports were used to inform estimates of employee counts and salaries for Parliamentary entities.

There is limited data currently available for the PSC to determine the value of work associated with each gender-predominant job class. This analysis, therefore, relied on observations from other jurisdictions with a pay equity legislation to inform its assumptions about pay adjustments of PSC employees working in female-predominated job classes.[8, 9] Specifically, we looked at the share of employees in female predominated job classes, the percentage of employees in these job classes that received a pay equity adjustment and the average annual pay equity adjustment as a share of annual salary.

PBO's annualized rates of growth in public sector employees and compensation were applied to project total future compensation costs and federal personal income tax revenue.

The number of employees receiving a pay equity adjustment in the FRPS and Crown Corporations was obtained from the cost-benefit analysis conducted by Employment and Social Development Canada (ESDC) for the final Pay Equity Regulations.[10] PBO's annualized rates of growth in the labour force employment were applied to project total number of employees for the purpose of federal personal income tax revenue.

To estimate the anticipated increase in federal personal income tax revenue for all federal regulated workspaces, this analysis used Statistics Canada's Social Policy Simulation Database and Model (SPSD/M).[11] PBO assumed a linkage between federal personal income taxes paid on household incomes (in SPSD/M) and actual taxes paid by federally regulated employees on their salaries. Using SPSD/M, this analysis estimated the average increase in personal income taxes paid by all the impacted employees.

3. Results

The estimated net fiscal impact of establishing a proactive pay equity regime within federally regulated public and private sectors is $385 million in 2025-06, the first full fiscal year under this regime. Ongoing annual compensation costs are expected to grow in line with PBO's projections of the number of public sector employees and compensation.

Table 3-1 presents the estimated compensation costs to the federal government for employees working for the PSC. It also shows the estimated impact on federal personal income tax revenue arising from proactive pay equity in all federally regulated public and private sectors. The estimated net fiscal impact in 2024-25 is adjusted to reflect that employers must post their final pay equity plans no later than three years after becoming subject to the *Act* and increases in compensation become payable.[12]

Table 3-1 Estimated Public Service of Canada employee compensation cost and federal personal income tax of federal pay equity

$ millions	**2024-25 (starting September 1, 2024)**	**2025-26 (ongoing)**
Increases to salaries	$303	$544
Increases to employment pensions and benefits contributions	$41	$73
Increases to CPP/QPP and Employment Insurance contributions	$2	$4
(A) Total Public Service of Canada compensation cost	**$346**	**$620**
(B) Personal Income tax revenue	**$132**	**$235**
(A - B) Net fiscal impact	**$215**	**$385**

Source: PBO's calculations

Notes: Figures show total increase in compensation and personal income taxes paid due to proactive pay equity. Total compensation cost reflects the fiscal cost of increased salaries and benefits to the federal government as an employer. Total personal income tax revenue reflects the fiscal revenue arising from proactive pay equity in all federally regulated public and private sectors. Total cost reflects the net fiscal impact of establishing a pay equity regime (fiscal revenue subtracted from fiscal cost). Figures may not add up due to rounding.

Increased compensation costs in PSC are anticipated to total $620 million, in 2025-26. This includes $544 million in salary increases $73 million in employment pension and benefit contribution increases, and $4 million increase in employer contributions to CPP/QPP and Employment Insurance.[13]

It is anticipated that federal personal income tax revenue will rise due to the increase of employees’ salaries within public and private workspaces regulated under federal jurisdiction. The government could anticipate an increase in federal personal income tax revenue of $235 million in 2025-26.

Notes

1. Employment and Social Development Canada (ESDC) news release, July 7, 2021, https://www.canada.ca/en/employment-social-development/news/2021/07/government-of-canada-announces-that-the-pay-equity-act-will-come-into-force-on-august-31-2021.html

2. For additional information on the administrative and regulatory costs of implementing a proactive pay equity regime in workspaces under federal jurisdiction, see PBO's previous report, *Fiscal Analysis of Federal Pay Equity*. That report estimated $14 million per year in ongoing administrative and regulatory costs for the federal government.

3. Ibid, Note 1.

4. The Federal Public Service of Canada consists of two populations: the Core Public Administration (CPA) and Special Agencies. Treasury Board Secretariat (TBS) is the employer of the CPA employees, while Special Agencies are employers in their own right. However, since Special Agencies are still publicly funded (i.e. employees' salaries are sourced from the Government of Canada), we consider them as having direct fiscal impact on the Government's finances. Examples of Special Agencies include the Canada Revenue Agency (CRA), Parks Canada, etc.

5. Parliamentary entities with 10 or more employees comprise of Elections Canada, the House of Commons, the Library of Parliament, the Office of the Auditor General, the Office of the Conflict of Interest and Ethics Commissioner, the Offices of the information and Privacy Commissioners of Canada, the Office of the Commissioner of Lobbying of Canada, the Office of the Commissioner of Official Languages, the Office of the Parliamentary Budget Officer, the Parliamentary Protective Services and the Senate .

6. The compensation costs for employees not employed by the Government of Canada (i.e. in the FRPS or Crown Corporations) fall on their individual employer(s).

7. Treasury Board Secretariat response to PBO Information request IR0589. https://www.pbo-dpb.gc.ca/web/default/files/public/public/IR0589_TBS_Pay-Equity-2021_reply_e.pdf

8. Ontario and Quebec are the only two proactive pay equity regimes in Canada that apply to both private and public sectors. This report used observations from Quebec given the similarity between the federal and Quebec regimes.

   For employees in the PSC, we noted observations from a 2019 report from the Quebec Ministry of Labour of employees in the Quebec public service.

   Rapport du Ministre du Travail sur la mise en œuvre de la loi sur l'équité salariale, mai 2019. (in French only) https://www.travail.gouv.qc.ca/fileadmin/fichiers/Documents/equite/rapport_loi_equite_salariale.pdf

9. For employees in FRPS and Crown Corporations, we note that the observations from Quebec's 2019 report may not be applicable since those employees do not fit the definition of "public service". Therefore, observations from a 2006 report are used, which captures the entire workforce irrespective of the public or private sector.

   Rapport du Ministre du Travail sur la mise en œuvre de la loi sur l'équité salariale, novembre 2006. (in French only) https://www.cnesst.gouv.qc.ca/sites/default/files/publications/loi-equite-salariale-acquis-a-maintenir-rapport-ministre-du-travail-mise-en-uvre-loi-sur-lequite-salariale-novembre-2006.pdf

10. Pay Equity Regulations, P.C. 2021-637 June 24, 2021, SOR/2021-161, Canada Gazette, Part II, vol. 155, no. 14, p. 2241, July 7, 2021. https://canadagazette.gc.ca/rp-pr/p2/2021/2021-07-07/pdf/g2-15514.pdf

    The full costing of the Regulations can be found in the Pay Equity Regulations cost-benefit analysis. A full copy of the cost-benefit analysis is available upon request to ESDC.PayEquity-EquiteSalariale.EDSC@labour-travail.gc.ca.

11. This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSD/M simulation results are prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

12. See Note 1. This analysis assumes the pay equity plan(s) will be completed and posted by all federally workplaces by the third anniversary of the *Pay Equity Act* coming into force. As a result, increases in compensation that are owed to employees in female-predominate job classes become payable on September 1, 2024.

    Should increases equal to more than one percent of an employer's total payroll for the previous year, employer may phase-in increases in compensation over a maximum period of three or five years depending on the size of the employer.

13. Employer contributions to hospital and medical plans are not included in the calculations related to employment benefits.