In-Depth Guide to the EU Pay Transparency Directive

Get Ready to Build a More Transparent Future

Pay Transparency Takes Time — EU Organisations Must Start Planning Now

By the second half of 2027, employers with more than 100 employees in any European Union (EU) Member State will need to submit their first report in line with the EU Pay Transparency Directive. This also applies to businesses based outside the EU (including the UK) that employ more than 100 employees in an EU country. The rules on how the Directive will be implemented by each Member State within the EU are still evolving. However, there are some core principles of the Directive that are likely to be applicable consistently.

This far-reaching piece of legislation backs up a key value of equality in the EU through equal pay for equal work. Among its measures, it will require employers to identify and address gender gaps in pay, reward and employee benefits.

Take Advantage of Opportunities

Meeting the terms of the Directive will involve a range of stakeholders in every business, including the C-Suite, people management professionals and line managers. The action list is long and varied, from analysing current pay data to redesigning job architectures and supporting line managers in conversations about pay. And, the risks of non-compliance are high, both financially and reputationally.

But the potential advantages go well beyond simply avoiding fines. This is an opportunity for businesses to create fairer reward policies, enhance diversity, equity and inclusion (DE&I) strategies, create more consistent and compelling career paths and transform talent management.

Each Member State has until 7 June 2026 to transpose the Directive into national law — but employers do not have to wait until then to become familiar with the structure and requirements of the legislation, even if there are ultimately slightly different nuances to the legislation in different countries.

Pay transparency and gender pay gap reporting is not restricted to the EU either. Expectations and legislation are gathering pace globally, with initiatives in the US, Canada, Japan, the UK and others. The principles that businesses put in place to comply with the Directive can help to change conversations across multinational businesses and create more consistent organisation-wide reward practices.

While the first reporting deadline of 2027 might sound like a long time away, businesses need to act now, to understand the regulations, assess their current readiness, gather data, create an action plan, put tools and frameworks in place, act on gaps, build reporting structures and develop communication strategies.

This guide explores what businesses need to do to prepare, and how Aon can support every aspect of pay transparency, from compliance with the EU Directive, to realising the wider business advantages that pay equity and transparency can bring.

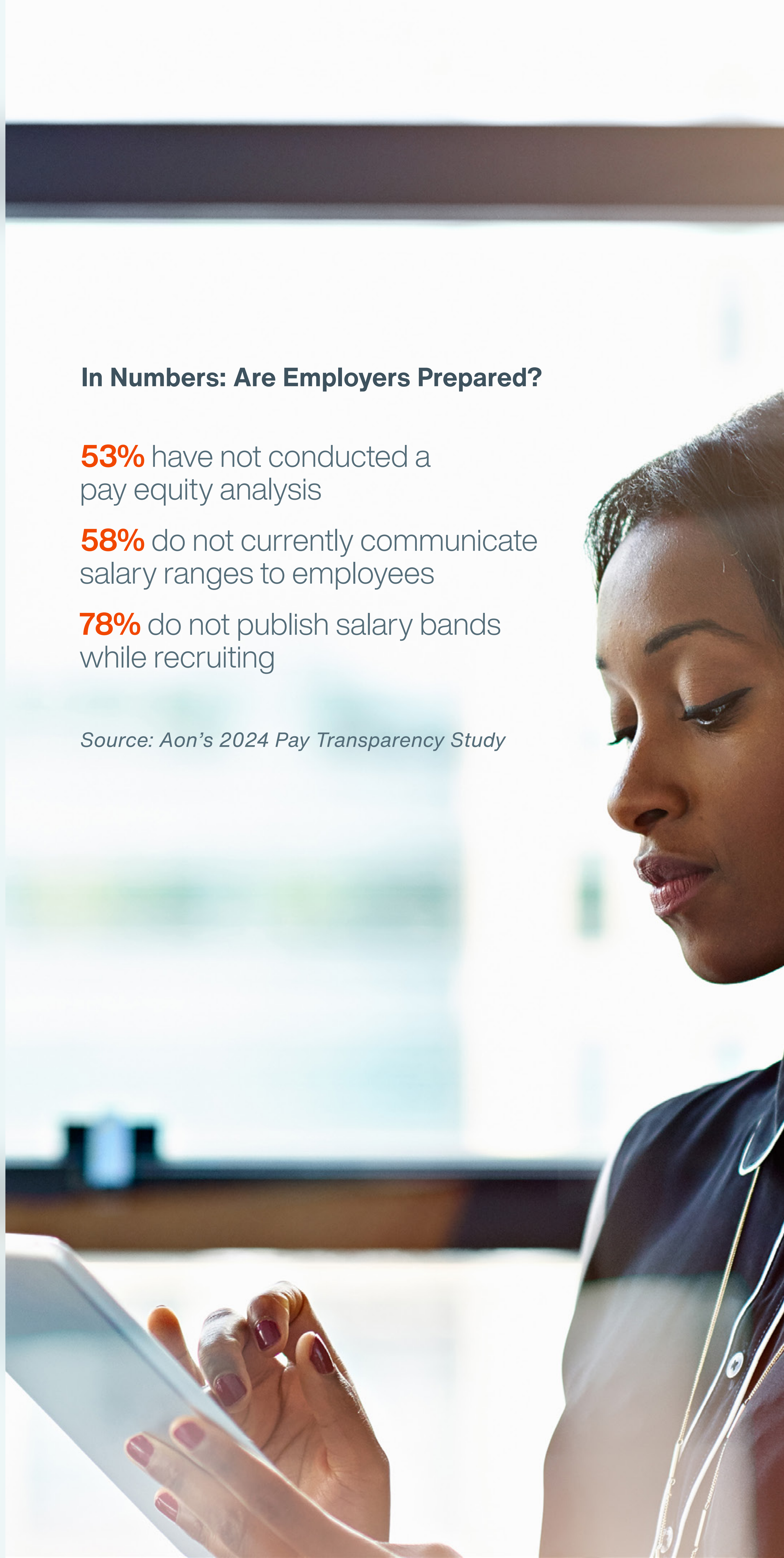
In Numbers: Are Employers Prepared?

53% have not conducted a pay equity analysis

58% do not currently communicate salary ranges to employees

78% do not publish salary bands while recruiting

Source: Aon's 2024 Pay Transparency Study



Understanding the Directive

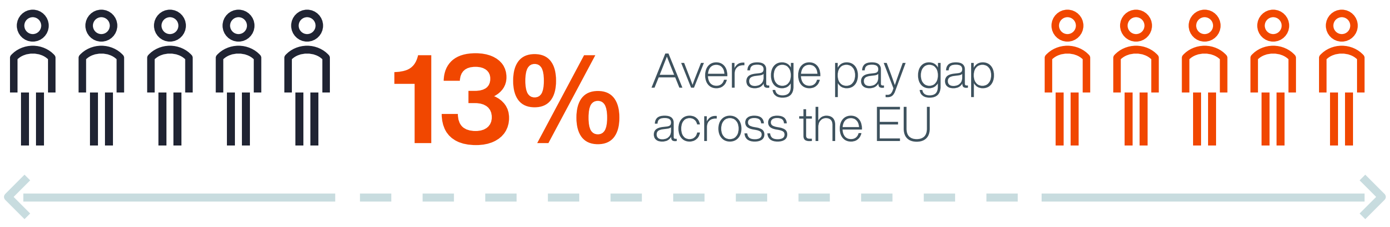
What is the EU Pay Transparency Directive?

Equal pay for equal work is one of the European Union's (EU) founding principles. But despite the ambition that men and women should be paid equally for the same type of work, there is a 13 percent gender pay gap across the EU.

Progress towards closing this gap has been slow and there are significant differences in approaches to pay equity between different EU countries.

To make sure that EU member states have a common set of standards, the EU has created the Pay Transparency Directive. The Directive will introduce new laws that bring in higher, more consistent standards of pay transparency and pay equity.

Most member states already have some pay equity legislation, but they will have to make sure that their laws meet the terms of the Directive. That will mean at least some updates to legislation in most countries, and in some instances substantial change. Member states have until 7 June 2026 to translate the Directive into law.



At a Glance: 10 Essential Components of the EU Pay Transparency Directive

01 Businesses will need to report on their gender pay gap both across the company as a whole and within categories of workers who do the same work, or work of equal value.

02 Where there is an unjustified gender pay gap of 5 percent or more, employers must work with employee representatives and/or work councils to understand the gaps and develop an action plan to correct them.

03 Job applicants will have the right to receive information on initial pay levels and ranges for any advertised position and employers cannot ask about previous or current pay.

04 Employers cannot stop employees from sharing pay details — for example, they cannot put pay secrecy or confidentiality clauses in place.

05 Employers must share information on how pay is set, progressed and managed, including information on promotion and progression criteria.

06 Workers will have the right to request details about the average of how others doing comparable jobs are paid.

07 Pay differences must be related to objective criteria, such as performance or market premium, not related to gender.

08 Tools to compare and assess pay levels must be based on gender-neutral criteria, including gender-neutral job evaluation or classification systems.

09 The Directive applies to employee benefits and pensions as well as pay.

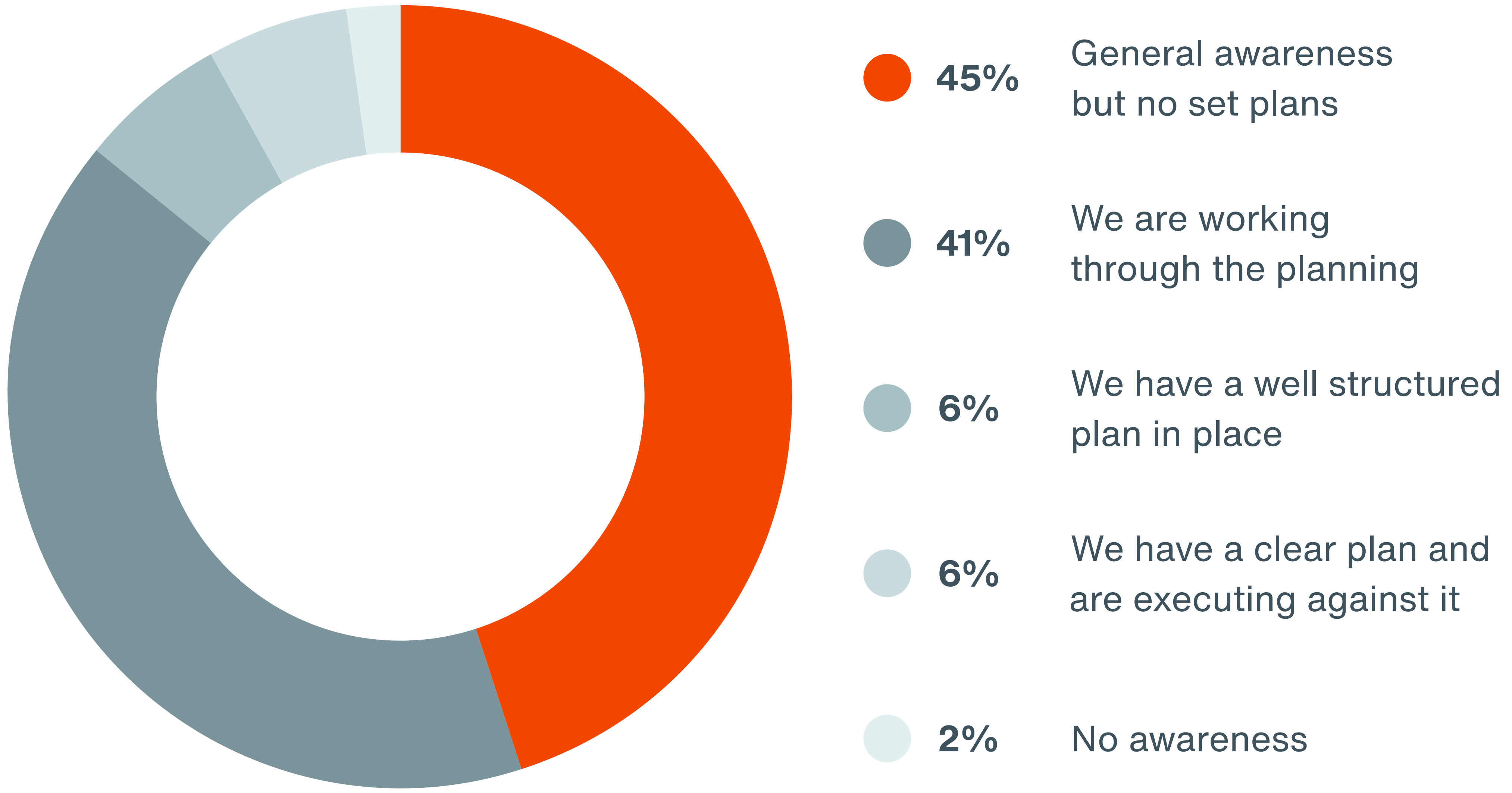
10 Organisations that don't comply with the Directive can be subject to uncapped fines.

When do Organisations have to Comply?

Employers with at least 100 employees will need to report in line with the Directive from the second half of 2027. Organisations with at least 250 employees must report every year and those with between 150 and 249 employees will report every three years.

That means that employers have one to two pay cycles at most to build and implement a robust framework and fix any issues before reporting begins. It is vital that businesses allow sufficient time to prepare — and that means starting now.

How Ready are Employers for Pay Transparency?



Source question: What is your observed state of readiness?*

Key Drivers Behind Pay Transparency

01	EU Regulations
02	DE&I Priority
03	Enhance EVP / Talent Attractiveness
04	Increased Employee / Stakeholder / Shareholder Expectations
05	Mitigate Equal Pay Claim Risk
06	Other (Mix of Responses)
07	Performance Management
08	Communcation & Governance
09	Pension and Benefits Reporting

Source question: How would you rank the following as drivers behind your organisation's focus on Pay Transparency?*

** Aon's 2024 Pay Transparency Study. The study had over 200 responses from a wide range of companies with employees based both within and outside the European Union.*

A Roadmap to Pay Transparency Readiness

Creating a roadmap to fulfil the requirements of the EU Pay Transparency Directive is a vital first step towards compliance.

H1 2025

01

Getting started

- Create a plan:
  - How ready are we?
  - What is our philosophy towards pay transparency?
  - What are our stakeholder requirements?
  - What is our reporting capability?
  - Do we understand existing gaps?
  - What are the priorities for attention?
- Review frameworks, e.g. job evaluation, salary structures, bonus structures and benefits.
- Carry out independent pay equity analysis.
- Agree your approach with a project plan of priorities and a road map.

H1-H2 2025

02

Address the pay gap and work towards pay transparency

- Implement frameworks for job evaluation, salary structures, bonus structures and benefits.
- Test that your job framework is aligned to the principles of equal pay for equal work.
- Review HR, talent and reward policies and processes including recruitment, promotions, performance assessment, governance framework for compliance.
- Develop a pay transparency strategy linked to your pay and people strategy that supports gender neutrality throughout the employee lifecycle.
- Make final changes to 2026 salaries and close gaps, based on pay equity findings and competitive market data.

H1-H2 2026

03

Communicate pay transparency

- 7 June 2026: the Directive will be transposed into law by EU member states.
- Create stakeholder communications, consultation and engagement to build awareness throughout the organisation.
- Train and up-skill line managers.
- Move beyond pay and bonuses to benefits, including the gender pensions gap.
- Link pay transparency to the overall people strategy, DE&I and employee value proposition.

H2 2027 Onwards

04

Report

- First pay gap report due based on 2026 pay.
- Add pay data to job adverts, prepare for employee queries on pay.
- Data reporting must be robust, including external and regulatory reporting.
- Put targets and commitments in place, using consistent language and open communications.
- Set processes for ongoing maintenance and governance of pay and benefits transparency.
- Ensure leadership is committed to promoting equality and diversity in the workplace.

Pay Transparency for the Long-Term

While businesses will be focused on the 2027 deadline to comply with the Directive, employers must prepare for short-term effects from its implementation, as well as looking to its long-term impact.

As pay transparency evolves, organisations could be faced with wage inflation, employee relations issues, equal pay claims and difficult conversations between employees and line managers. But these are all likely to be outcomes of existing issues, poorly designed processes and inconsistent job architectures. Robust change management processes can help employers to manage these short-term consequences.

In the longer term, the more that organisations make gender pay equity part of their company culture, the greater the impact on DE&I strategies, talent management and the Employee Value Proposition (EVP).

Perhaps the most important long-term effect is identifying how an organisation will improve pay equity over time. If there is no improvement, there is no progress.

In Depth: Job Architectures and Job Evaluation Frameworks

To assess pay, reward and benefits equity in like-for-like roles requires well-designed job architectures and job families that give a clear structure for jobs, skills and careers. But over time, business growth and change can lead to new types of jobs and promotion structures within an organisation, creating inconsistent job levels, pay and titles.

Core to the EU Directive is ensuring equal pay for equal work or work of equal value. Having a robust, gender neutral and defensible job evaluation system is one of the first steps for organisations to ensure they can prove jobs of equal value.

Aon's JobLink™ gives employers the tools and services they need to create robust, defensible job architectures to support pay transparency.

Pay Equity, Total Reward and Pay Gaps

Understanding the building blocks of pay transparency — pay equity, total reward and pay gaps — helps organisations gain the most from complying with the EU Directive.

What is Pay Equity?

Pay equity ensures workers receive equal pay for equal work, regardless of their gender, race, ethnicity, disability, age, or other factors that are not related to their individual skills, qualifications, or performance.

But that can be easier said than done. Over time, talent needs change, employees come and go and market pressures impact salaries. That means maintaining pay equity can be a constant challenge. Accessing quality data, developing consistent job families and architectures and eliminating inconsistent pay practices can all help.

Aon takes a three-step approach to supporting pay equity:

- **Pay equity audit**: find out where there are pay gaps, the size of those gaps, areas of specific concern for pay equity and drivers of inconsistency within an organisation.
- **Pay equity remediation**: identify steps to improve pay equity, including the cost of reducing gaps, identifying employees who are eligible for adjustments, updating policies and timetables for change.
- **Monitoring and governance**: organisations need to be able to manage pay equity over time. That includes embedding best practices in annual pay cycles, educating HR and line managers, and using robust tools for ongoing data monitoring.

The Total Reward Perspective

Complying with the EU Pay Transparency Directive goes beyond salary alone. It must also focus on **total reward**, taking bonuses and employee benefits into account. Organisations need to understand not just gaps in their pay equity, but also in their wider benefits provision, such as pensions, insurance products like private medical insurance and other benefits such as discount programmes.

This broad perspective means that there are many unexpected scenarios **where inequities** can appear, such as:

- The contribution structure of a pension plan reflects gender pay gaps because it is based on salary.
- Jobs that have been traditionally eligible for bonuses may be compared with those that have not.

To identify and address gender gaps related to total reward and benefits, employers will need to be able to track participation rates in benefits programmes, audit their benefits equity, calculate the value of benefits that employees receive, and understand how that value varies between employees in the same category of work. Any gaps will need to be addressed if they cannot be explained with objective reasons.

What's Inside a Pay Gap?

Here is an example of how a pay gap is calculated. This is for illustration purposes only and not based on actual company information.

Unadjusted Pay Gap

An organisation finds it has a pay gap of **-24.3 percent** between pay for men and for women.

Explained Pay Gap

At face value, the factors contributing to an unadjusted pay gap are not always clear. It is useful to carry out some deeper analysis to identify the sources of the gap. Part of an unexplained pay gap can be attributed to the below factors.

Pension and benefits: 5.9 percent
Part of the pay gap is explained by pension and benefits. Lower female representation in higher paid jobs means that women, on average, also receive lower pension and benefits contributions.

Other variables: 16 percent
Other aspects of that pay gap can be explained using legitimate business factors such as job level, function and tenure. In this example, the company finds that **-16 percent** of its pay gap can be explained using these factors.

Adjusted / Unexplained Pay Gap

After accounting for legitimate business factors, any remaining differences in pay between men and women is the adjusted, or unexplained, pay gap. In this case, the adjusted pay gap is **-2.4 percent**, which means there is a still gap between men's and women's pay. This needs to be addressed.

Risks and Opportunities of Pay Transparency

There are substantial risks associated with non-compliance with the EU Pay Transparency Directive. However, for businesses that are committed to making pay equity and transparency part of their company culture, there are also clear opportunities.

Risks

Financial

The financial risks of inequality are significant and uncapped.

- Employees can claim compensation and full back pay, including bonuses and payment in kind, and the burden of proof lies with the employer, not the employee.
- National governments can impose uncapped fines on businesses with a pay gap of over five percent.

Reputational

Organisations with an unjustified pay gap of over 5 per cent must commit to action to close the gap, but significant gaps and/or a failure to take immediate and decisive action risks long-term reputational damage.

- Poor reputation will impact on share price.
- Difficulty in attracting new business or meeting ESG criteria as a supplier.

Operational

Pay gaps and inequalities hit employee morale, undermine trust, disengage employees and damage the EVP.

- Workforce attrition increases and employers will struggle to recruit key talent and skills.
- Employees want to work for a fair, inclusive organisation — pay gaps count against that.

23%

Female managers earn almost a quarter less than male managers across the EU

https://www.europarl.europa.eu/topics/en/article/20200109STO69925/understanding-the-gender-pay-gap-definition-and-causes

Opportunities

Global Alignment

The EU Pay Transparency Directive is not an isolated initiative. Around the world, there is increasing focus on equity and fairness across salary, bonuses, benefits and quality of experiences at work.

- Frameworks and processes in place for EU requirements may meet and exceed legislative requirements in other jurisdictions.
- Data and job architectures will be in place for future legislation around the world.

Career Planning

Transparent levels and grades across an organisation help HR, line managers and employees with career planning.

- Employees can see how their careers will develop and progress in the future.
- Employees have a clear understanding of the roles and responsibilities at each level.
- Managers and HR leaders have a robust framework and toolkit to guide decision-making and objectivity.

Support Wider Data and Reporting Requirements

The data required to comply with the Directive needs to be good quality and up-to-date. This will help organisations comply with other legislation as well as both internal and external reporting requirements.

- The Pay Transparency Directive is aligned with the EU's Corporate Sustainability Reporting Directive, which requires companies to disclose the percentage gap in pay between men and women.
- Reporting for the Directive will help to support with wider corporate ESG strategies and vision across the organisation.

More Robust HR Processes and Governance

Many organisations will have to reconsider their HR processes and policies so that they can explain and justify pay decisions.

- Practices such as performance management as a basis for pay differences need to be well documented and consistent.
- Gender-neutral job evaluation and classification systems make it easier to understand and model equal work across an entire business.

How Can Aon Help?

Aon can support your preparation for the EU Pay Transparency Directive from beginning to end. For example, we can help with:

- Auditing job levels to identify the current state versus what is required under the new regulations.
- Creating a company-wide consistent approach to job architecture.
- Implementing our JobLink™ job evaluation system which is based on a robust, defensible and gender-neutral evaluation methodology. Job Link has been approved in UK employee tribunals as an acceptable tool for identifying jobs of equal value.
- Creating a consistent library of every job code and job description that is accessible to HR and people managers.
- Building career frameworks that define a clear set of skills, competencies and experiences at each step.
- Developing clear, scalable career paths to support staff development.
- Standardising career levels across functions and aligning these with market expectations.

Whether you need support with creating and executing an action plan, or specific actions such as pay equity auditing, we are here to help.

Navigating the EU Pay Transparency Directive

Aon's experts can support you in navigating the requirements of the EU Pay Transparency Directive. As rules evolve, we stay up-to-date with how the Directive is being implemented by every country within the EU, and what that means for employers preparing to comply with the legislation. While rules are still taking shape, we can help you prepare now for every aspect of the Directive, from educating stakeholders and creating a bespoke action plan, through pay equity audits and job architecture design, to establishing a company-wide communication and change management strategy.

Creating a Pay Transparency Strategy and Roadmap

Our goal is to provide your team with a sustainable pay transparency strategy, plus leave-behind tools, that link your job architecture, career framework, skills taxonomy, total rewards strategy and employee value proposition together in a coherent manner. This will help you meet disclosure requirements including the EU Pay Transparency Directive, with confidence.

Assessing Pay Equity

We guide clients through a three-step process to help them build sustainable pay equity practices. Each step in the journey is designed to directly and proactively address challenges such as poor data and inconsistent pay practices.

Designing a Job Architecture Fit for Purpose

Trusted by clients around the world, Aon's job architecture approach is rooted in our data — including the Radford McLagan Compensation Database — spanning across sectors, geographies, and all sizes of organisations. It is fully flexible and designed to deliver a starting point that can be customised to your needs. It is underpinned by JobLink™ job evaluation methodology, which is flexible, trusted, acceptable and easy to implement.

Benchmarking

More than 9,000 client organisations, in every industry, rely on Aon and our Radford McLagan Compensation Database as their source for making compensation decisions and understanding today's volatile talent landscape. Benchmarking pay, assessing competitiveness of pay levels and practices across location, industry and company size and monitoring diversity metrics are just some of our capabilities. We also help organisations benchmark their benefits and pension plans via our extensive Aon database.

Building Benefits Equity

Assessing benefits equity requires careful analysis of how products are offered, take-up rates and the relationship between job design and benefit packages. Aon can help employers objectively explore their benefits offering, create more transparency and equity, and address any gender gaps.

Communication and Change Management

The EU Pay Transparency Directive may require widespread change in HR and pay practices for some employers, as well as raising the risk of grievances from employees. Aon can help you design an effective change management and communication strategy to mitigate risks and ensure that pay transparency becomes core to your company culture. We can also train leaders, managers and employees with what is coming, what they can expect and how they can deal with the change.

About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

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