# Step 6: Paying Adjustments

PAY EQUITY OFFICE
BUREAU DE L'ÉQUITÉ SALARIALE

6_1_Intro <Narrator>
In this video, we will go over Step 6 to demonstrate how to calculate adjustment payments if pay equity gaps are found.

6_2_WhoThisIsFor_1 <Narrator>
Haifa & Lucien, owners of Upcycled Fashion, just finished comparing female job classes to male job classes. Since the results in the adjustments column of step 5 were more than 0, they now have to calculate adjustment payments for the female job classes that were found to be paid inequitably.

6_2_WhoThisIsFor_2
<Lucien> Okay, Haifa – you've done a great job of bringing me along this far. Among other things, I've learned that I need to be careful not to make quick assumptions about how to do each step. Now that we're at the step of calculating what we owe to our employees, I'll start by asking you how we should start.

6_2_WhoThisIsFor_3
<Haifa> If we had a formal compensation framework, we would have to increase all levels of the pay range by the adjustment amount. Since we do not yet have a formal compensation framework, we only need to do two things in this step:

- First, increase individual pay rates by the adjustment amount, and then
- Calculate individual retroactive adjustments from the time the gap existed.

6_2_WhoThisIsFor_4
<Lucien> Looks like we will have to do that for the Marketing Specialist, Part Time Customer Service, Sewist, and Administrative Assistant job classes. To calculate the adjusted pay rates, do we simply add the results from the adjustment columns in step 5 to the current job rates?

6_2_WhoThisIsFor_5
<Haifa> Not quite. The numbers that appear in the adjustment column are hourly rates but if you recall from step 4, not all of our employees get paid hourly, and not all of our employees work the same number of hours. So, we will have to convert these numbers back to fit the compensation of each employee.

6_2_WhoThisIsFor_6
<Lucien> Hmmm, could you give me an example?

6_2_WhoThisIsFor_7
<Haifa> Sure. Let's take a look at the annual impacts of adjustments by calculating the adjusted job rate for the Sewist Job Class, which is paid an annual salary. We converted that annual salary to an hourly rate and determined the job rate to be $23.79 for our 2021 pay equity exercise. With a 14 cent upward adjustment that the toolkit showed us is needed, the adjusted job rate is $23.93. Since we pay Ezmie a full-time yearly salary, we need to convert the revised hourly job rate back to an annual salary amount. So we multiply $23.93 by 40 hours per week, which gives us $957.20 per week. Multiplying that by 52 weeks in a year gives us $49,774.40 as her adjusted yearly salary. Compared to her current salary, there is a difference of $291.20 annually.

6_3_RetroactivePayments_1
<Lucien> Okay, so now we know the change that needs to be made to Ezmie's annual salary. What about the next step of calculating retroactive adjustments? How do we know when the pay equity discrepancy started?

6_3_RetroactivePayments_2
<Haifa> Good question, Lucien. We hired our 10$^{th}$ employee on February 8, 2021, therefore that is the starting date of our retroactive calculations.

6_3_RetroactivePayments_3
Let me walk you through the Part Time Customer Service job class as an example of how we calculate adjustments that are retroactively owed to a specific date. Keep in mind that there are 5 employees working different hours in that job class, so we have to make different calculations for each employee.

6_3_RetroactivePayments_4
The first step is to calculate how long the pay gap has existed. We hired our 10th employee on February 8th, 2021, and the Part Time Customer Service job class has been around for at least that long. If the increased pay rate came into effect January 1st of 2022, that means the pay gap existed between February 8th and December 31$^{st}$ of 2021, which is 47 weeks.

6_3_RetroactivePayments_5
According to our payroll report, Amir was paid for a total of 693 hours from February 8 to December 31st . If the hourly adjustment is 81 cents, then $.81 by 693 hours equals $561.33.

6_3_RetroactivePayments_6
But since we are doing this exercise in 2022, and this is an adjustment for 2021, we should also include interest. We can determine interest rates by dividing the total adjustment amount in half, as established by case law, and multiplying it by the interest rate set out by the Government of Ontario for the year in question.

6_3_RetroactivePayments_7
We can look up interest rates on the Ontario website that is linked in the Toolkit, under the prejudgment table. It looks like the interest rate for February 2021 is 0.5%, so $561.33 divided in half equals $280.67. $280.67 by 0.5 percent equals $1.40. If we add this to the adjustment amount, then we owe Amir a total retroactive payment of $562.73.

6_4_Conclusion_1
<Lucien> So once we adjust the pay rates and calculate retroactive payments for all our affected employees, are we all done?

6_4_Conclusion_2
<Haifa> Almost. There's just one more bit we still have to do. When we pay the retroactive pay equity adjustments, we need to add a line to the pay stub stating that this is a pay equity payment. We need to do this for all employees in the female job classes that require retroactive adjustments.

6_4_Conclusion_3
<Lucien> That seems fairly straightforward and something our accountant can easily do. Why don't you and I also send a short letter to each employee to let them know we are making things right?

6_4_Conclusion_4
<Haifa> Great idea! It's not a legal requirement but I think it helps show that we are genuinely committed to equitable pay.

This video presents one hypothetical business scenario. It is for information only and is intended to assist employers in complying with the *Pay Equity Act*. It is not to be construed or considered as legal advice, nor warranted to be complete and accurate, and may be amended without notice. It does not restrict Review Officers of the Pay Equity Office in their interpretation and determination of matters under the *Act*.

# Download the Pay Equity Toolkit

Follow us for tools, tips and resources to help your workplace achieve pay equity.