

Suggested Formulae in Correcting Wage Distortion

1. Pineda Formula

$$\text{wage distortion adjustment} = \frac{\text{previous minimum wage}}{\text{wage of employee}} \times \text{mandated wage increase}$$

2. Pineda-Cruz So Formula

$$\text{Wage distortion adjustment} = \left[\frac{\text{Previous minimum wage}}{\text{Wage of Employee}} \right]^n \times \text{Mandated wage Increase}$$

3. Percentile Approach Formula

$$\text{Wage distortion adjustment} = \text{Percentile weight of pay group} \times \text{Mandated wage Increase}$$

4. Philippine Construction Supply Formula

$$\text{Wage distortion adjustment} = \frac{\text{Existing minimum wage}}{\text{Formula base range (FBR)}} \times \text{Mandated wage Increase}$$

where: FBR = Actual wage rate + Agreed amount of adjustment

5. Jimenez, Ofreneo, Delas Alas Jr. (JODA) Formula

$$\text{wage distortion adjustment} = \frac{W_b - W_a}{2}$$

where: W_a = old daily minimum wage
 W_b = daily wage of employee (where $W_b > W_a$, or W_b is above W_a)
 W_c = new daily minimum wage
 $= W_a + \text{mandated wage increase}$

6. Wirerope Formula

$$\text{Wage distortion adjustment} = \frac{\text{Existing minimum wage}}{\text{Present wage of employee}} \times (\text{Mandated wage Increase} - \text{Creditable Increase})$$

Bagtas Approach

$$\text{Wage distortion adjustment} = \frac{\text{Mandated Wage Increase}}{\text{Existing Minimum Wage}} \times \text{Present wage of employee}$$

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National Wages and Productivity Commission
 DEPARTMENT OF LABOR AND EMPLOYMENT



Frequently
 Asked
 Questions on

Wage
 Distortion

1. **What is wage distortion?**

A situation where the application of a mandated wage increase results in the elimination or severe contraction of existing salary differentials among employee groups in an establishment.

2. **What are the elements of wage distortion?**

- a. Existing hierarchy of positions with corresponding salary rates
- b. Significant change in the salary rate of a lower pay class without a concomitant increase in the salary rate of a higher one
- c. Elimination of the distinction between the two levels
- d. Existence of the distortion in the same region of the country

The elements of Wage Distortion had been clearly established in the case of Prubankers Association vs. Prudential Bank and Trusts Co. GR # 131247, January 25, 1999.

3. **What are the logical bases for wage differentiation?**

Wage differentiation within a company occurs because of differences in the level of education and/or training required, responsibilities undertaken, strain of work, and hazards, etc., across job families and job levels within a company.

4. **When can a company say there has been a severe contraction of the intended pay gap as a result of the implementation of a Wage Order?**

There is severe contraction of the intended pay gap when such gap has been reduced by more than 50%.

5. **Are differences in regional assignment between workers occupying the same position within a company considered wage distortion?**

No. Wage distortion involves comparison of salary rates between workers within a company located within the same region.

6. **In correcting wage distortion, is there a legal requirement to restore the gap in precisely the same amount that previously existed?**

No. The restoration of a substantial or significant gap is acceptable.

7. **Is there a formula to correct wage distortion?**

A company has the option to use any of the seven formulae suggested by the NWPC or use other or develop its own formula (please refer to the formulae provided in this material).

8. **What are the procedures to correct wage distortion?**

For **organized firms**, the employer and the workers' union shall negotiate through the grievance procedures incorporated in their Collective Bargaining Agreement. If still unresolved, the parties may push through with the process of voluntary arbitration.

For **unorganized firms**, the management and labor sector shall discuss and agree on the method to correct wage distortion. Any dispute arising thereof shall be settled through the National Conciliation and Mediation Board. If negotiations fail, the National Labor Relations Commission may intervene through compulsory arbitration.

9. **Are disputes arising from wage distortion strikeable?**

No. Strikes, lockouts and other concerted action made by either the union or management are considered illegal.

10. **Will the pendency of a dispute arising from a wage distortion prevent minimum wage earners from receiving the wage increase?**

No. A dispute should not, in any way, prevent or delay the application of a Wage Order.