NWPC ADVISORY NO. 01
Series of 2023

Correcting Wage Distortions Arising from the Implementation of Minimum Wage Orders

Pursuant to the power vested in the National Wages and Productivity Commission (NWPC) by Republic Act No. 6727 or the Wage Rationalization Act, and recognizing that the prescribed wage increases through wage orders issued by the Regional Tripartite Wages and Productivity Boards (RTWPBs) may lead to wage distortions within enterprises, the following provisions of the Labor Code and jurisprudence on the matter are hereby reiterated:

A. Article 124 of the Labor Code defines wage distortion as a situation where an increase in prescribed wage rates results in the elimination or severe contraction of intentional quantitative differences in wage or salary rates between and among employee groups in an establishment as to effectively obliterate the distinctions embodied in such wage structure based on skills, length of service or other logical bases of differentiation.

B. The elements of wage distortion were established in the case of Prubankers Association vs. Prudential Bank and Trust Co., G.R. No. 131247, January 25, 1999, as follows:
   1. Existing hierarchy of positions with corresponding salary rates;
   2. Significant change in the salary rate of a lower pay class without a concomitant increase in the salary rate of a higher one;
   3. Elimination of the distinction between the two levels; and
   4. Existence of distortion is limited to jobs or positions under the same employer in a region.

C. The procedures to correct wage distortions are as follows:
   1. For organized firms (with union)
      a. The employer and the workers' union shall negotiate to correct the distortions;
      b. Any dispute arising from wage distortions shall be resolved through the grievance procedure under their collective bargaining agreement; and
      c. If it remains unresolved, the parties may push through with the process of voluntary arbitration.

   2. For unorganized firms (without union)
      a. The employers and workers shall endeavor to correct the wage distortions;
      b. Any dispute arising therefrom shall be subject to mandatory conciliation-mediation through the Single-Entry Approach (SEnA) of the National Conciliation and Mediation Board; and
      c. If there is no settlement, the distortion may be resolved through the labor arbiter or may be submitted by both parties through voluntary arbitration.

The Commission encourages enterprises to seek guidance and technical assistance from the RTWPBs in correcting wage distortion issues.

The attached formulas and examples may serve as guide in adjusting wage structures to rectify any wage distortions, but the employers and workers may develop and agree on a formula based on their specific needs and circumstances.

This Advisory shall take effect immediately upon publication.

14 August 2023.

For the Commission:

BIENVENIDO E. LAGUESMA
Secretary and Chairperson

Formula to determine contraction

The contraction is severe if it is more than 50% of the intended quantitative difference in pay between two rates.

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	?
Accountant	695	?

Q1 = intended difference in pay before wage order issuance
Q2 = resulting difference in pay after wage order issuance

Q1 = 640-570
    = 70

Q2 = 640-610
    = 30

Question: Whether there is severe contraction between rates 640 and 610.

Contraction (%) = (Q1-Q2)/Q1 x 100
              = (70-30)/70 x 100
              = **57.14%**
Answer: Yes

Suggested formulas with samples to correct wage distortion

PINEDA FORMULA
 ➢ Provides pay increases for higher paid employees at a decreasing rate

Question: What should be the adjusted wage of the accounting staff?

Wage Distortion Adjustment (WDA) = (Existing Minimum Wage/Wage of Employee) x Mandated Wage Increase

$$= 570/640 \times 40$$
$$= \textbf{35.63}$$

Accounting staff adjusted wage = 640 + **35.63**
$$= \textbf{675.63}$$

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**675.63**
Accountant	695	?

Question: Whether there is severe contraction between rates 695 and 675.63.

Contraction (%) = (Q1-Q2)/Q1 x 100
$$= (55-19.37)/55 \times 100$$
$$= \textbf{64.77\%}$$

Answer: Yes

Q1 = 695-640
   = 55

WDA = (Existing Minimum Wage/Wage of Employee) x Mandated Wage Increase
$$= 570/695 \times 40.00$$
$$= \textbf{32.81}$$

Q2 = 695-675.63
   = 19.37

Accountant adjusted wage = 695 + **32.81**
$$= 727.81$$

PINEDA-CRUZ-SO FORMULA

➢ provides pay increases/adjustments slightly lower than the Pineda Formula
➢ applies arbitrary exponent agreed upon by the workers and the management to the formula which results in a faster rate of decline in wage increases for those paid above the minimum wage rate

WDA = [(Existing Minimum Wage/Wage of Employee)]^2 x Mandated Wage Increase
    = $(570/640)^2$ x 40
    = (0.890625 x 0.890625) x 40
    = **31.73**

Where:
    Two (^{2}) is the agreed exponent in this example.

Accounting staff adjusted wage = 640 + **31.73**

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**671.73**
Accountant	695	?

WDA = [(Existing Minimum Wage/Wage of Employee)]^2 x Mandated Wage Increase
    = $(570/695)^2$ x 40
    = (0.82014 x 0.82014) x 40
    = **26.91**

Accountant adjusted wage = 695 + **26.91**
                          = 721.91

PHILIPPINE CONSTRUCTION SUPPLY FORMULA

> Similar to the Pineda Formula but the denominator is a "base rate" which includes an amount agreed upon by the workers and management. The higher the base rate, the smaller the distortion increment and vice-versa.

WDA = (Existing Minimum Wage/Formula Base Rate [FBR]) x Mandated Wage Increase
= (570/649) x 40
= **35.13**
where:
    FBR = Actual Wage Rate + Agreed Amount of Adjustment (assuming P9 agreed amount)
       = 640 + 9
       = 649

Accounting staff adjusted wage = Actual Wage Rate + WDA
                          = 640 + 35.13
                          = **675.13**

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**675.13**
Accountant	695	?

WDA = (Existing Minimum Wage/Formula Base Rate [FBR]) x Mandated Wage Increase
= (570/704) x 40
= **32.39**
where:
    FBR = Actual Wage Rate + Agreed Amount of Adjustment (assuming P9 agreed amount)
       = 695 + 9
       = 704

Accountant adjusted wage = Actual Wage Rate + WDA
                  = 695 + 32.39
                  = **727.39**

WIREROPE FORMULA

> ➤ Similar to the Pineda Formula but the creditable wage increase under a Collective Bargaining Agreement is subtracted from the mandated wage increase.

WDA = (Existing Minimum Wage/Wage of Employee) x (Mandated Wage Increase – Creditable Wage Increase)

$$= (570/640) \times (40 - 5)$$
$$= (570/640) \times 35$$
$$= \textbf{31.17}$$

Assuming that the creditable wage increase pursuant to the Collective Bargaining Agreement is P5.

Accounting staff adjusted wage = 640 + 31.17
$$= \textbf{671.17}$$

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**671.17**
Accountant	695	?

WDA = (Existing Minimum Wage/Wage of Employee) x (Mandated Wage Increase – Creditable Wage Increase)
$$= (570/695) \times (40 - 5)$$
$$= (570/695) \times 35$$
$$= \textbf{28.71}$$

Assuming that the creditable wage increase pursuant to the Collective Bargaining Agreement is P5.

Accountant adjusted wage = 695 + **28.71**
$$= \textbf{723.71}$$

PERCENTILE APPROACH

➢ Useful for a large group of employees and there is no clear job and pay structure. Employees are classified according to their pay percentile.

WDA = Percentile Weight of Pay Group x Mandated Wage Increase
   = 80% x 40
   = .80 x 40
   = **32**

Assuming that the wage group of accounting staff is in the 80th percentile.

Accounting staff adjusted wage = 640 + **32**
                                   = **672**

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**672**
Accountant	695	?

WDA = Percentile Weight of Pay Group x Mandated Wage Increase
   = 60% x 40
   = .60 x 40
   = **24**

Assuming that the wage group of Accountant is in the 60th percentile.

Accountant adjusted wage = 695 + **24**
                             = **719**

BAGTAS FORMULA

➤ Percent wage adjustment is equal to the percent increase represented by the mandated minimum wage increase.

WDA = (Mandated Wage Increase/Existing Minimum Wage) x Wage of Employee

= (40/570) x 640

= **44.91**

Accounting staff adjusted wage = 640 + **44.91**

= **684.91**

Positions	Rate Before Wage Order Issuance	Rate after wage distortion adjustment
Administrative Staff	570 (existing minimum wage)	610 (new minimum wage)
Accounting Staff	640	**684.91**
Accountant	695	?

WDA = (Mandated Wage Increase/Existing Minimum Wage) x Wage of Employee

= (40/570) x 695

= 48.77

Accounting staff adjusted wage = 695 + **48.77**

= 743.77

JIMENEZ, OFRENEO, DELAS ALAS, Jr. (JODA) FORMULA

➢ Most useful to daily rates with:
  i. values between the new minimum wage rate and rates above the old minimum
  ii. small differences, in a matter of several pesos or centavos only (within the vicinity of 50% of the daily rate increase)
➢ Not applicable:
  i. when the differentials in rate are more than 50% or one half of the increase in the daily rate
  ii. to highly paid employees, and when many employees are involved

Positions	Wage Rates	
Administrative Staff I	570 (existing minimum wage)	610 (new minimum wage)
Administrative Staff II	590 (rate before wage order issuance)	? (rate after wage distortion adjustment)

WDA = (Wb − Wa)/2
New Daily Rate = WDA + Wc
Where:

Wa =	old daily minimum wage	= 570
Wb =	daily wage of affected employee	= 590
Wc =	new daily minimum wage	= Wa + mandated wage increase
		= 570 + 40
		= 610

Mandated wage increase = 40

WDA =   (590-570)/2   New Daily Rate of Administrative Staff II =   10 + 610
  =   20/2   =   **620**
  =   **10**

SUMMARY

Existing Minimum Wage under WO No. NCR-23: Php570
Minimum Wage Increase pursuant to WO No. NCR-24: Php40

Formula	Accounting Staff (Wage rate under WO No. NCR-23 = Php640)		Accountant (Wage Rate under WO No. NCR-23 = Php695)	
	Wage Distortion Adjustment (WDA)	Wage Rate after WDA	Wage Distortion Adjustment (WDA)	Wage Rate after WDA
Pineda	**35.63**	675.63	**32.81**	727.81
Pineda-Cruz-So	**31.73**	671.73	**26.91**	721.91
Phil. Construction Supply	**35.13**	675.13	**32.39**	727.39
Wirerope	**31.17**	671.17	**28.71**	723.71
Percentile Approach	**32.00**	672.00	**24.00**	719.00
Bagtas	**44.91**	684.91	**48.77**	743.77

SUMMARY FOR THE JODA FORMULA

Existing Minimum Wage under WO No. NCR-23: Php570
Minimum Wage Increase pursuant to WO No. NCR-24: Php40
New Daily Minimum Wage Rate: Php610

JODA Formula	Administrative Staff II (Wage rate under WO No. NCR-23 = **Php590**)	
	Wage Distortion Adjustment (WDA)	Wage Rate after WDA
	10.00	610 + 10 = **620.00**