What's Next for Annual Reviews?

Today's Presenters:

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Today's Agenda

- An introduction to the annual review
  - Background
  - Pros and Cons
  - Payscale's CBPR data

- Factors impacting the annual approach today

- How to choose the right approach for your organization

The annual review

Also know as:

❑ **Common date review**

❑ **Focal review**

❑ **Merit review**

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The annual review

Also know as:

- ❏ **Common date review**
- ❏ **Focal review**
- ❏ **Merit review**

Compensation (often combined with performance) evaluations that occur at one time for all employees, or groups of employees.

The annual review

Also know as:
- ❑ **Common date review**
- ❑ **Focal review**
- ❑ **Merit review**

- Assess whether **compensation aligns with market** and make appropriate adjustments to pay structures

- **Evaluate internal equity** and consistency with pay practices

- **Align pay with career growth** and role expansion

- Allocate base and variable pay to **recognize performance and business outcomes**

- **Educate managers and employees** on compensation strategy and policies

- **Provide an opportunity** for anyone wishing to express concerns, contest salaries, or ask questions about their pay and role

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When will 2024 base-pay increases (adjustments for the 2023 merit year) become effective for employees in your organization?

Data points along the line:
- 23-Nov: 4%
- 23-Dec: 6%
- 24-Jan: 33%
- 24-Feb: 13%
- 24-Mar: 21%
- 24-Apr: 22%
- 24-May: 9%
- 24-Jun: 10%
- 24-Jul: 15%
- 24-Aug: 8%
- 24-Sep: 8%
- 24-Oct: 9%
- 24-Nov: 6%
- 24-Dec: 6%
- Not until 2025: 1%

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The annual review

Pros

- Allow simultaneous peer comparisons to provide context for a more equitable review process

- Easier to monitor governance with compensation principals

- Any changes to the process happen at the same time each year ensuring all employees are evaluated equally

- Supports alignment with financial planning and business goals

- Opportunity for more robust analytics

- Allows consistent communications

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The annual review

Pros

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Cons

- Time-consuming and resource-intensive
- When linking to PRP, feedback may not be timely or not reflective of the entire year's performance
- May not be frequent enough to keep pace with external talent markets or internal progression rates
- Need clear guidelines for newer employees
- Undermines maintenance of data integrity

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2015-16:

"End of the annual review"

Poll 1: What factors do you consider when adjusting base pay annually (select all that apply)?

A. Merit/performance

B. Market adjustment/cost of labor

C. Inflation/cost of living

D. Pay compression

E. Internal pay equity

F. Tenure

G. Change in location

H. Education/certification

I. Competitive skills
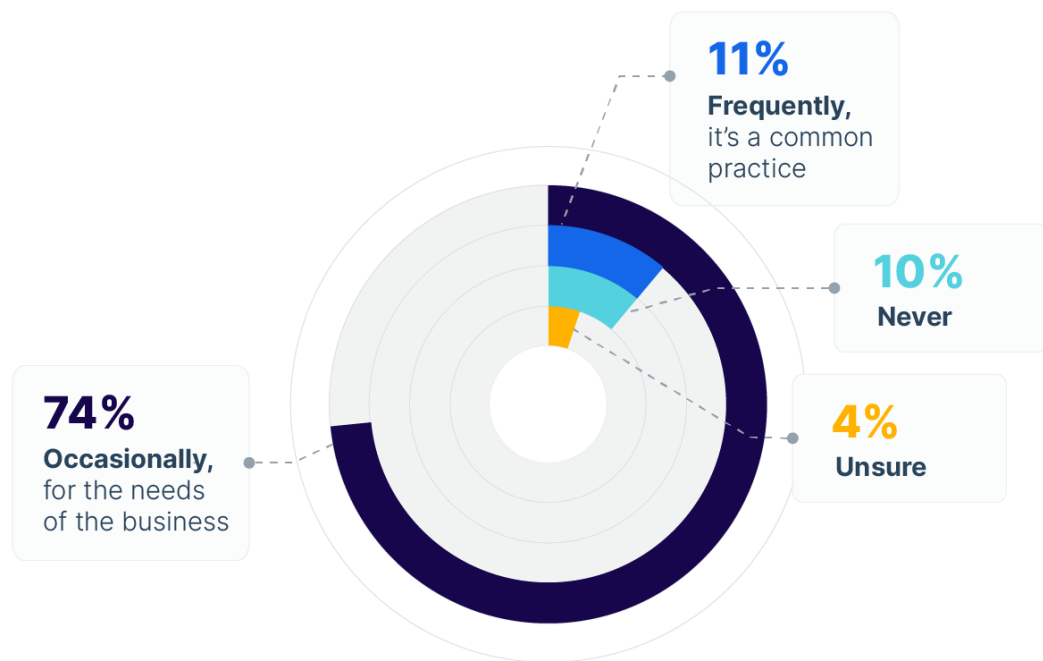
J. Minimum-wage increases

K. Other (please specify)

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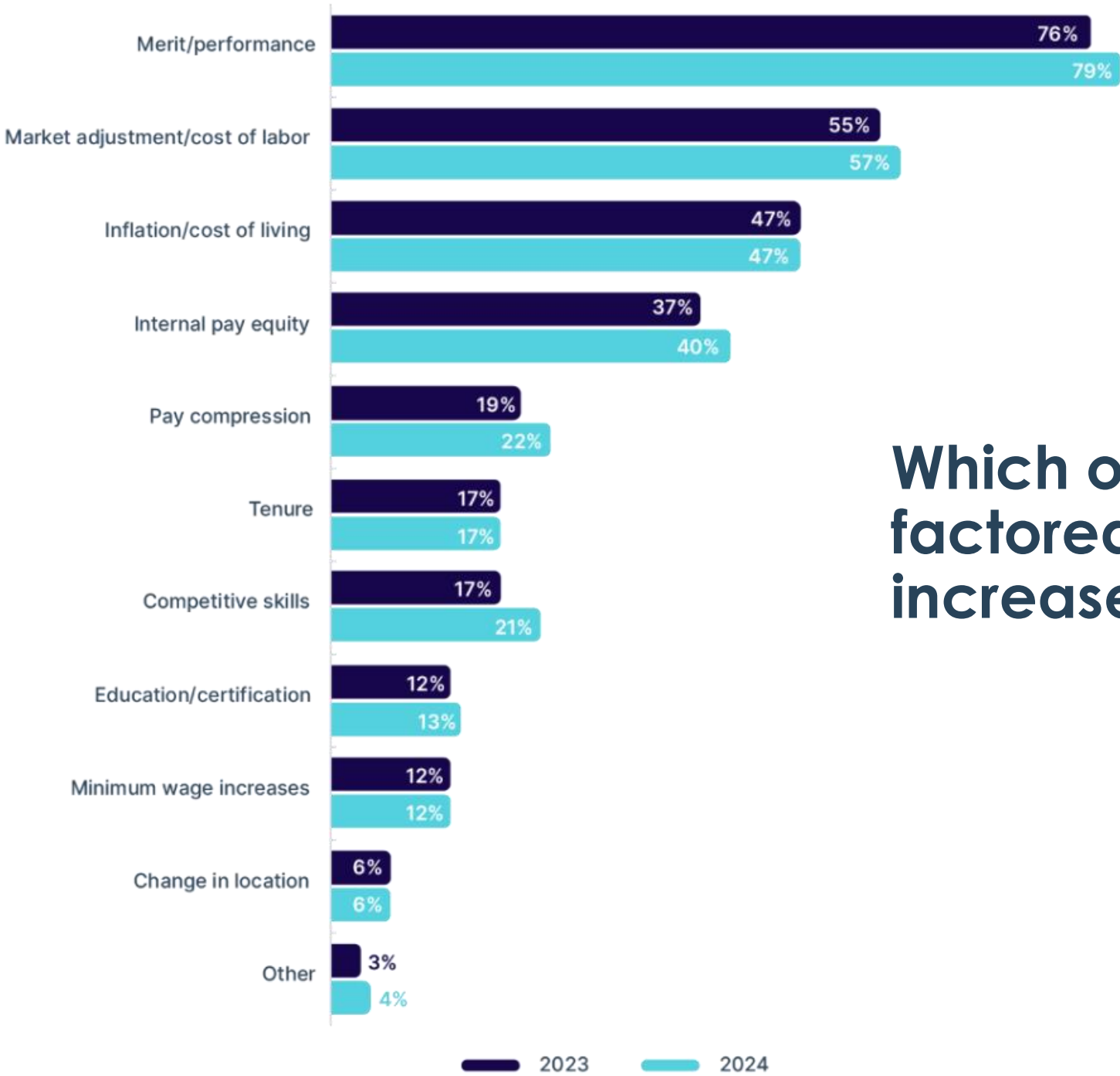
Which of the following were factored into base-pay increases in 2023?

	2023	2024
Merit/performance	76%	79%
Market adjustment/cost of labor	55%	57%
Inflation/cost of living	47%	47%
Internal pay equity	37%	40%
Pay compression	19%	22%
Tenure	17%	17%
Competitive skills	17%	21%
Education/certification	12%	13%
Minimum wage increases	12%	12%
Change in location	6%	6%
Other	3%	4%

2023   2024

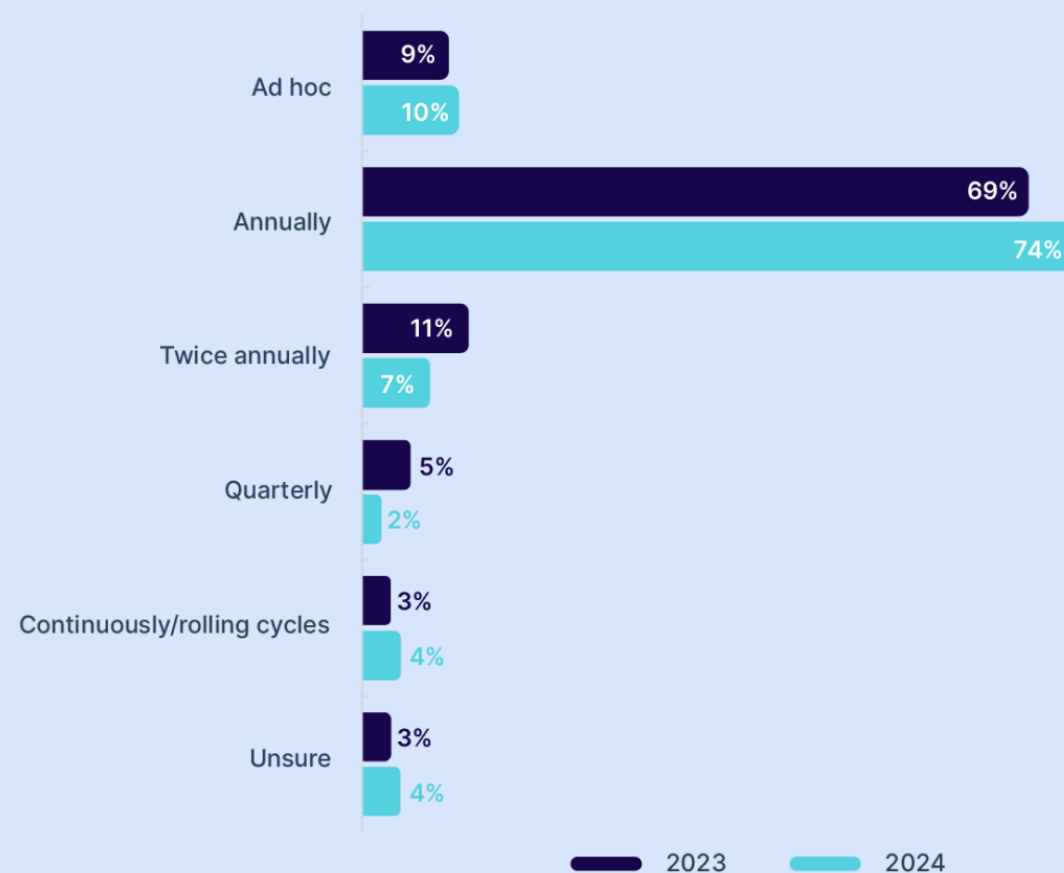payscale

Anniversary based review

Compensation reviews conducted annually that correspond to specific dates for each individual employee, like their hire date or date of their recent promotion.

- Spreads workload out across year – leads to a more personalized approach for each employee, but this puts internal equity at risk

- Late reviews common with admin burden of retroactive adjustments

- Harder to manage budget control and governance with compensation guidelines

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11%
Frequently, it's a common practice

10%
Never

4%
Unsure

74%
Occasionally, for the needs of the business

Do you give pay increases out of cycle?

**Frequency of pay increases, small shift to annual but this may reflect macro environment.**

Ad hoc — 9% / 10%
Annually — 69% / 74%
Twice annually — 11% / 7%
Quarterly — 5% / 2%
Continuously/rolling cycles — 3% / 4%
Unsure — 3% / 4%

2023   2024

Frequency of annual pay reviews

CBPR Year	2024	2023	2022
Ad hoc	10%	9%	11%
Annually	74%	69%	79%
Twice annually	7%	11%	4.4%
Quarterly	2%	4.5%	0.8%
Continuous/rolling cycles	4%	3.4%	5.2%

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Poll 2: Are you looking to increase the frequency at which you give pay increases?

A. Yes, to once a year

B. Yes, to twice a year

C. Yes, to quarterly

D. Yes, to continuously

E. No

F. Unsure

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Frequency of pay review by size of organization
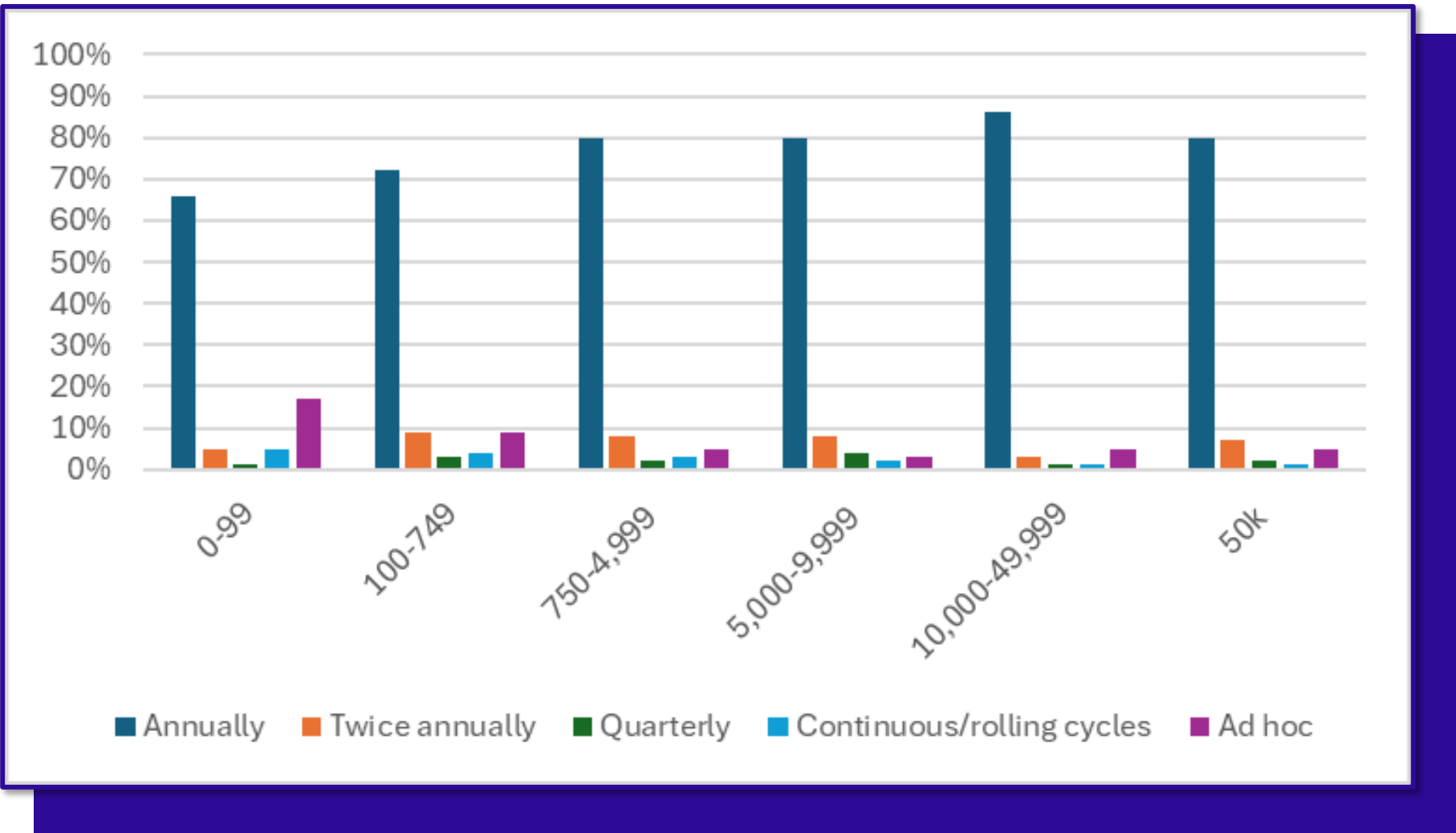
Frequency of pay reviews by industry

	Agencies & Consultant	Arts, Entertain & Recreation	Construction	Education	Energy & Utilities	Engineer & Science	Finance & Insurance	Food, Beverage & Hospitality	Gov	Health Care & Social Assistance	Manufacture	Nonprofit	Real Estate, Rental & Leasing	Retail & Customer Service	Tech (including software)	Transport & Warehouse	Other
Ad hoc	16%	15%	14%	8%	5%	4%	6%	11%	9%	8%	10%	10%	11%	10%	10%	8%	11%
Annually	67%	54%	61%	72%	78%	76%	82%	68%	69%	74%	76%	79%	76%	72%	73%	79%	75%
Twice annually	5%	10%	9%	10%	11%	10%	4%	7%	11%	7%	6%	4%	6%	7%	10%	4%	4%
Quarterly	3%	7%	6%	1%	3%	5%	2%	3%	1%	2%	2%	1%	0%	2%	1%	2%	1%
Continuous	3%	7%	7%	2%	2%	1%	2%	3%	8%	4%	2%	4%	1%	7%	3%	3%	4%

Is an annual review the only option?

Annual Review

+ rigorous ad hoc approach

Annual Review + Mid Year (promos and new hires)
+ rigorous ad hoc approach

Quarterly

+ rigorous ad hoc approach

Beware of the leaky bucket

Ensure you are capturing total cost or off-cycle increases to reflect total change in payroll YOY

Also monitor for fairness of distribution

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Which approach is best?

State of labor markets and where you source talent	Skills requirements especially hot skills	Type of pay structures used
Turnover & hiring rates	Level of pay transparency	Compliance with Pay Transparency legislation
Rate of change in internal talent marketplace	Global or multi-national	So, it depends!

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Our recommendations

Establish a cadence that works for your business – there is no normal!

Define clear objectives and differentiate between your mid-year, quarterly, annual processes

Monitor for the leaky bucket to keep track of overall annual costs

Source salary data to support frequency of review approach

Communicate, communicate and communicate more

Maximize efficiency by deploying technology to streamline and facilitate collaboration and communication

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Gain a competitive edge in a fierce talent market while building a more fair, equitable and transparent pay strategy

| Market Pricing | Pay Structures | Survey Management & Participation | Reporting & Analytics |
| Pay Equity | Compensation Planning | Total Rewards Statements | Job Descriptions Management |

Peer

A transparent & dynamic HR reported data network

Employee Reported

The world's largest real-time salary database

HR Market Analysis

A composite of analyst curated employer reported survey data

Q&A

Interested in a demo of Payscale's compensation software?

We'd love to chat, let us know in the poll!

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