Build Your Best Compensation Budget

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Today's Presenters:

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Today's Agenda

- Recent findings from Payscale's 2024-2025 Salary Budget Survey (SBS)

- Best practices for building a compensation budget

- Payscale compensation planning resources

Types of pay increases you may need to budget for

Total Increases*	• Total increases include all pay increases that impact company-wide base pay in the compensation planning process.
Cost-of-Living Increases	• Increase in salaries or hourly rates to help employees maintain the value of their compensation against inflation.
Merit Increases	• Also known as pay-for-performance, merit increases are raises in pay based on a set of criteria set by the employer.
Promotional Increases	• Promotion budgets are managed separately from company-wide base pay increases. Promotions affect fewer employees but are higher.
Salary Structure Increases	• **Market adjustments** are often budgeted separately from base pay increases as market adjustments do not affect all employees in all jobs.
Other Increases	• Other types of increases can include minimum wage increases, attainment of hot skills, pay equity adjustments, change in location, etc.

*Total increases are not combined via calculation in Payscale's Salary Budget Survey as not all organizations have the same types of increases. Instead, participants enter in their total increases.

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What to consider when building your budget proposal

- **Business Impact:**
  - What is the best budget to support organizational goals and have business impact?
  - What outcomes does the company need?
  - What is my current comp strategy/philosophy and how does this budget support our goals/needs?
- **Who:**
  - Which stakeholders need to be involved?
  - When and where do you bring managers into the process?
  - What do our employees value?
- **Scope:**
  - Which areas of your budget do you want/need to focus on first?
- **When:**
  - When is the best time to review/build your merit increase budget? How early do I need to build my budget?
  - How often do you want to revisit your budget?
- **External:**
  - What are our competitors doing?
  - What other things have changed in the external market or internally that I need to keep in mind?

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July and August:

Develop your budget proposal

October:

Start mapping projected increases

End of November:

Make final edits with managers and HR

End of December:

Communicate increases and make payroll adjustments

September:

Complete a market study, gain full picture of employees

Beginning of November:

Train managers on the comp process and their role

Beginning of December:
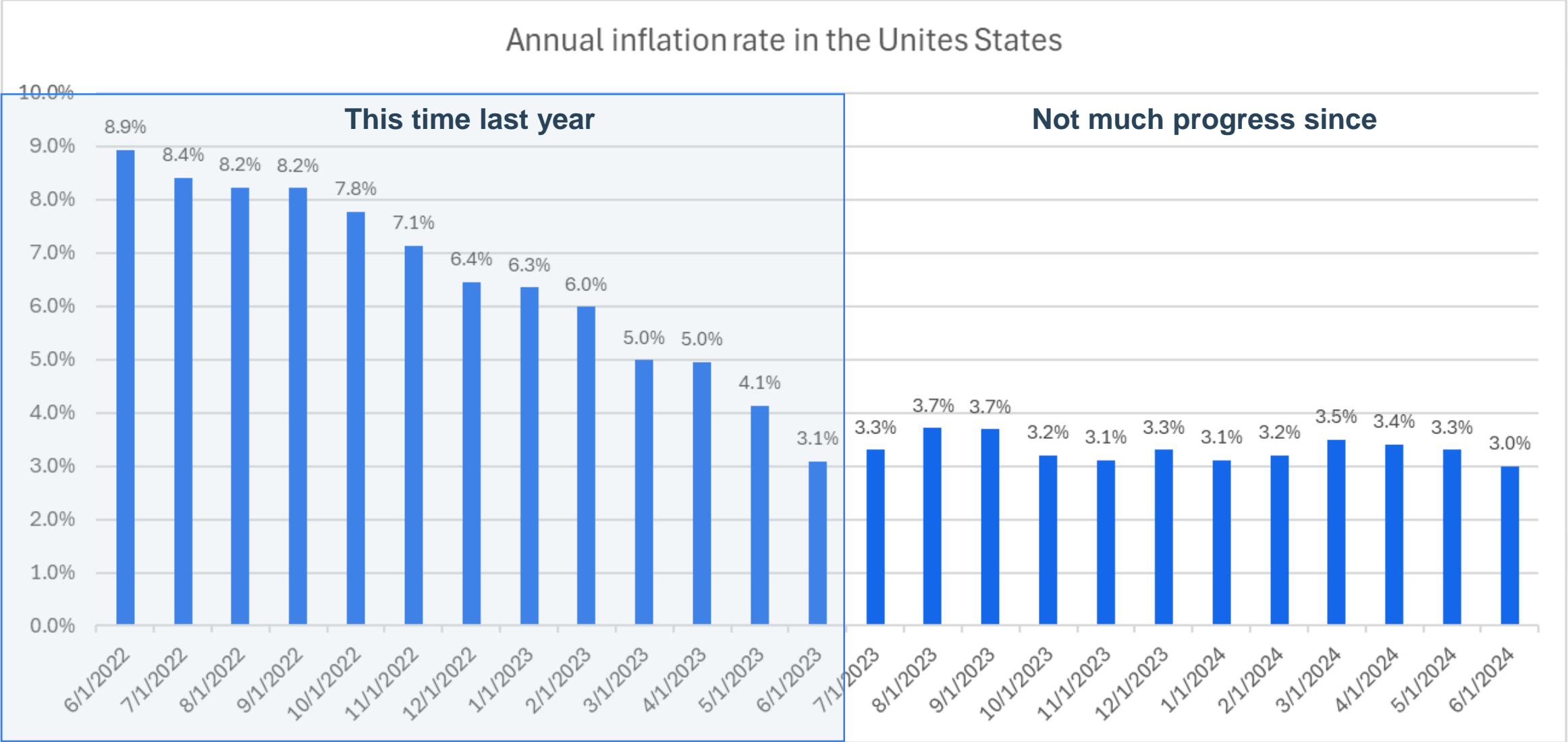
Finalize increases and obtain final approvals

January:

Adjusted increases go live

Where does budgeting fit in your comp timeline?
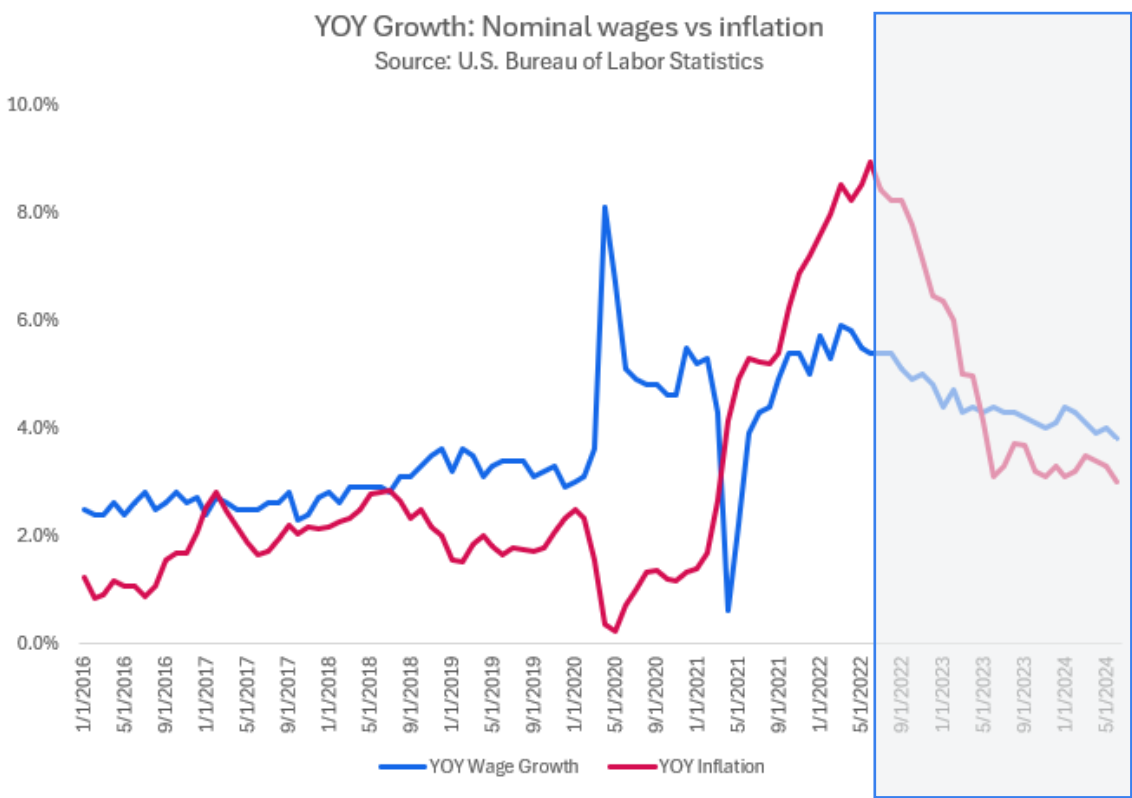
**Assumes a Jan-Dec fiscal year

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Recent findings from Payscale's Salary Budget Survey (SBS)

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Inflation has dropped since its height in 2022 but then stalled
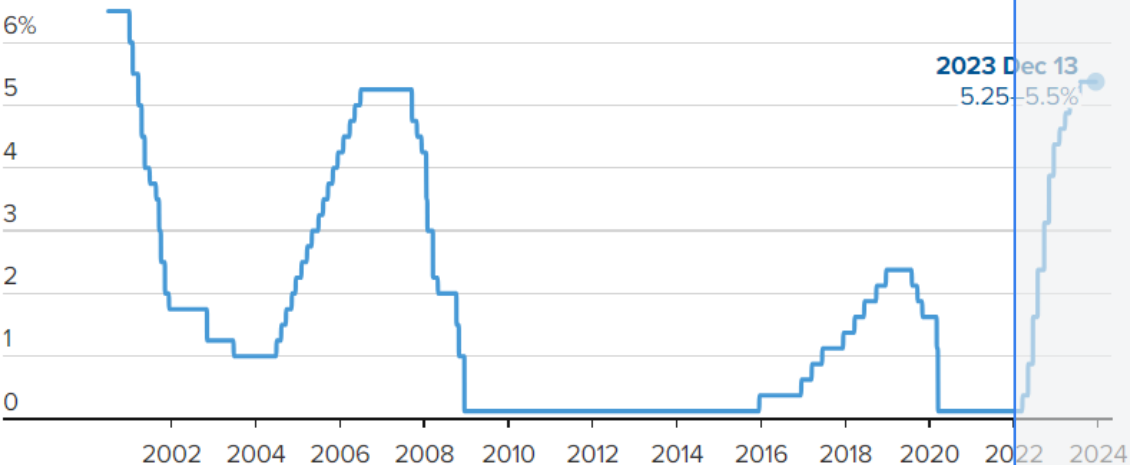

Annual inflation rate in the Unites States

Wage growth did not keep pace with inflation previously and interest rate hikes make growth challenging

"Efficiency" economy?

YOY Growth: Nominal wages vs inflation
Source: U.S. Bureau of Labor Statistics

— YOY Wage Growth — YOY Inflation

Federal funds target rate

2023 Dec 13
5.25–5.5%

Note: From December 2008 to present, the chart reflects the midpoint of the Federal Reserve's target range. The target rate began in 1982.
Source: Federal Reserve Bank of New York
Data as of Dec. 13, 2023

CNBC

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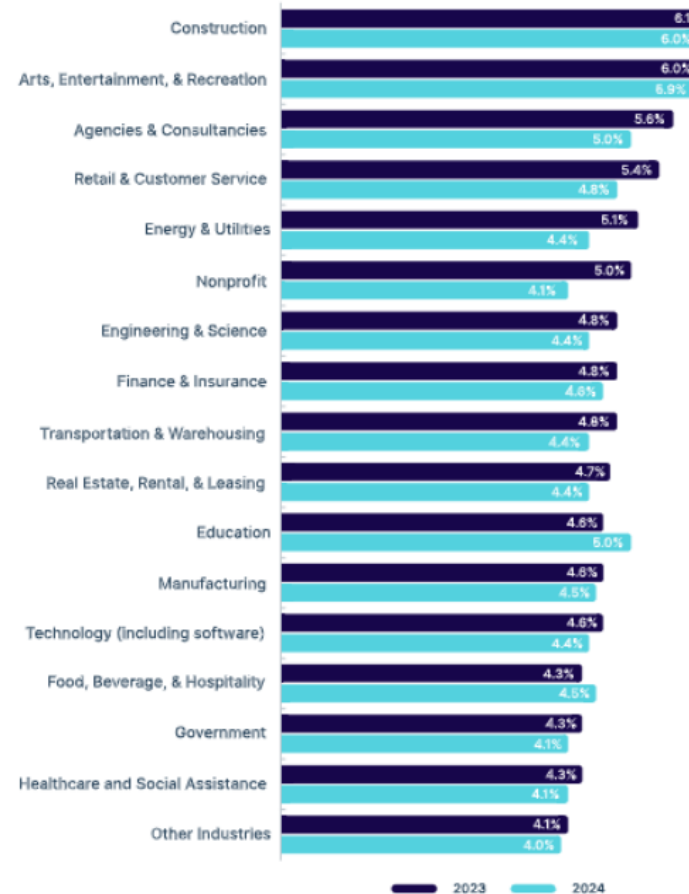**According to CBPR, pay increases were projected to be 4.5% in 2024, coming down from a high of 4.8% in 2023.**

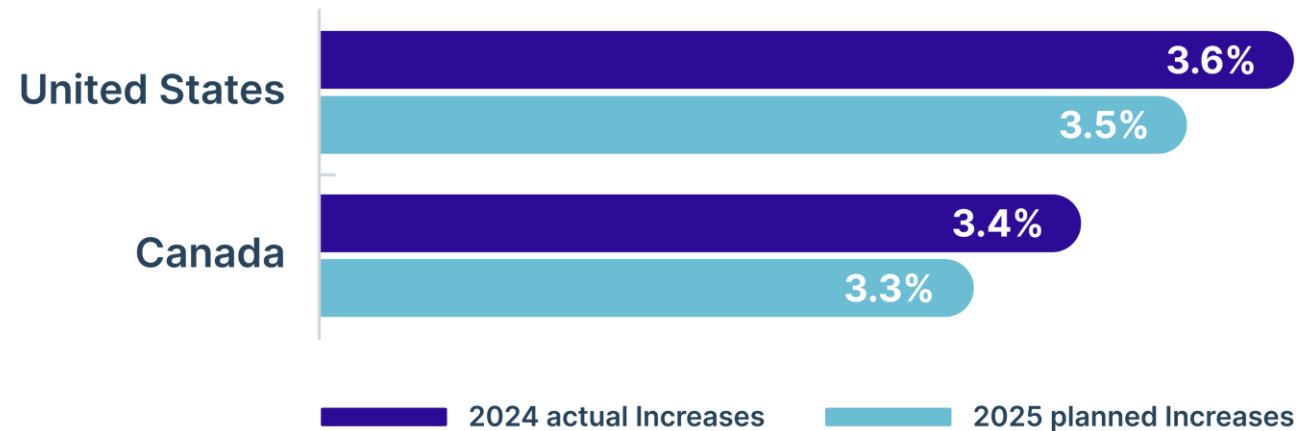What do you expect will be the average percent base pay increase given to employees in your organization?

4.8% | **4.5%**
2023 | 2024

Industry	2023	2024
Construction	6.1%	6.0%
Arts, Entertainment, & Recreation	6.0%	6.9%
Agencies & Consultancies	5.6%	5.0%
Retail & Customer Service	5.4%	4.8%
Energy & Utilities	5.1%	4.4%
Nonprofit	5.0%	4.1%
Engineering & Science	4.8%	4.4%
Finance & Insurance	4.8%	4.8%
Transportation & Warehousing	4.8%	4.4%
Real Estate, Rental, & Leasing	4.7%	4.4%
Education	4.6%	5.0%
Manufacturing	4.6%	4.5%
Technology (including software)	4.6%	4.4%
Food, Beverage, & Hospitality	4.3%	4.5%
Government	4.3%	4.1%
Healthcare and Social Assistance	4.3%	4.1%
Other Industries	4.1%	4.0%

■ 2023   ■ 2024

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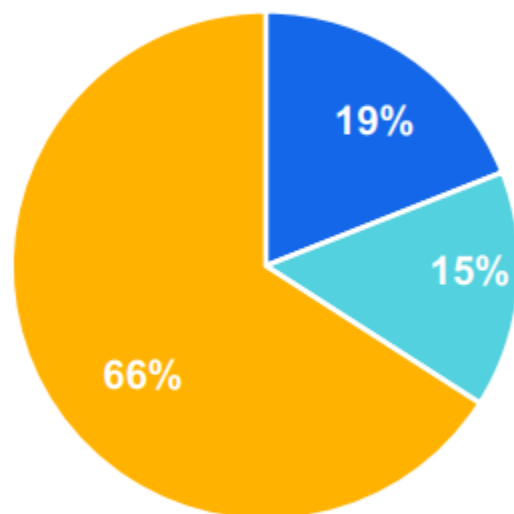# Poll: How does your expected 2025 salary increase budget compare to your 2024 salary increase budget?

A. Our 2025 salary increase budget is expected to be **higher** than our 2024 salary increase budget

B. Our 2025 salary increase budget is expected to be **lower** than our 2024 salary increase budget

C. Our 2025 salary increase budget is expected to be **the same** as our 2024 salary increase budget

D. Unsure

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United States
2024-2025 Salary Budget Survey (SBS)

How does your expected 2025 increase budget compare to your 2024 increase budget?
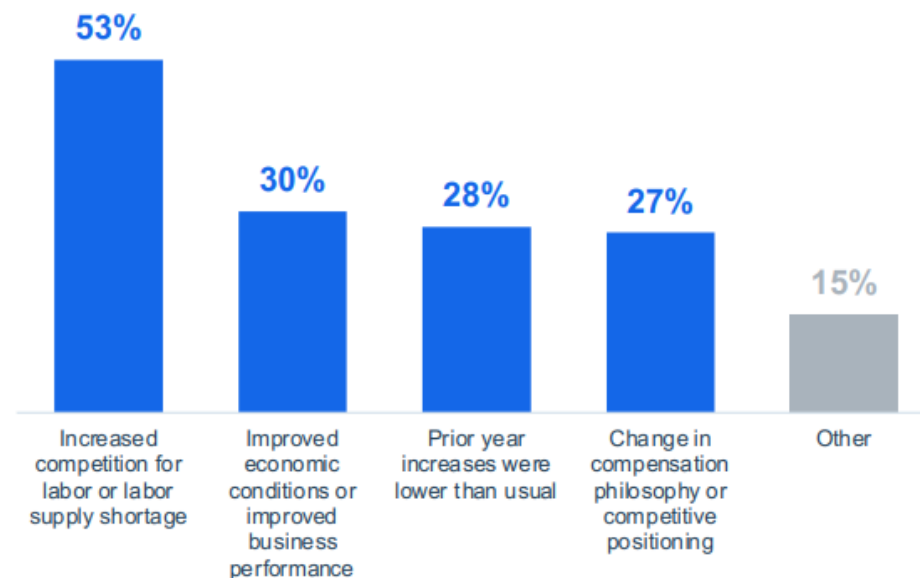
Base n=1,441

- Our 2025 salary increase budget is expected to be higher than our 2024 salary increase budget
- Our 2025 salary increase budget is expected to be lower than our 2024 salary increase budget
- Our 2025 salary increase budget is expected to be the same as our 2024 salary increase budget

Why is your 2025 salary increase budget expected to be higher than your 2024 increase budget?

Base n=253

53%	30%	28%	27%	15%
Increased competition for labor or labor supply shortage	Improved economic conditions or improved business performance	Prior year increases were lower than usual	Change in compensation philosophy or competitive positioning	Other

Why is your 2025 salary increase budget expected to be lower than your 2024 increase budget?

Base n=210

50%	49%	14%	7%	14%
Prior year increases were higher than usual	Concerned about future economic conditions or business performance	Reduced competition for labor or labor supply surplus	Change in compensation philosophy or competitive positioning	Other

Canada
2024-2025 Salary Budget Survey (SBS)

How does your expected 2025 increase budget compare to your 2024 increase budget?

Base n=317

- Our 2025 salary increase budget is expected to be higher than our 2024 salary increase budget
- Our 2025 salary increase budget is expected to be lower than our 2024 salary increase budget
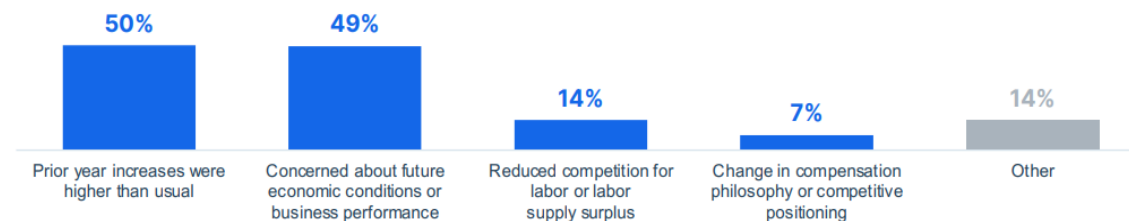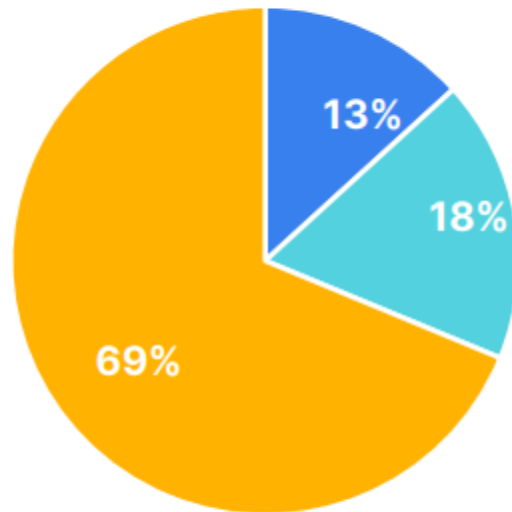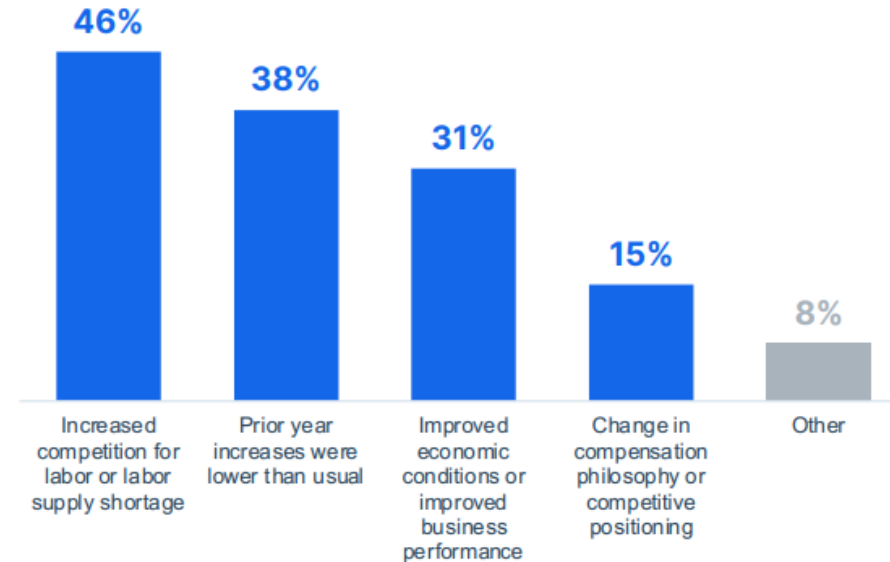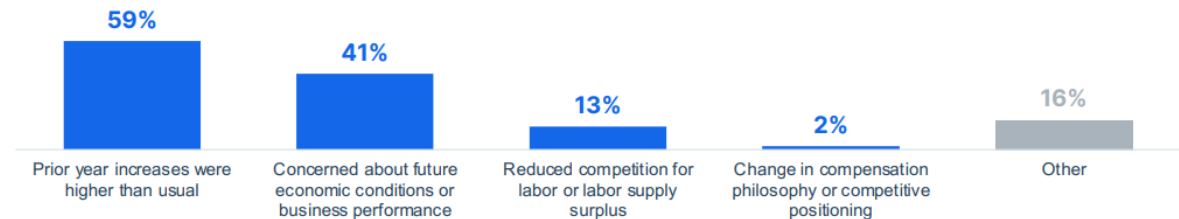- Our 2025 salary increase budget is expected to be the same as our 2024 salary increase budget

Why is your 2025 salary increase budget expected to be higher than your 2024 increase budget?

Base n=39

Increased competition for labor or labor supply shortage	Prior year increases were lower than usual	Improved economic conditions or improved business performance	Change in compensation philosophy or competitive positioning	Other
46%	38%	31%	15%	8%

Why is your 2025 salary increase budget expected to be lower than your 2024 increase budget?

Base n=56

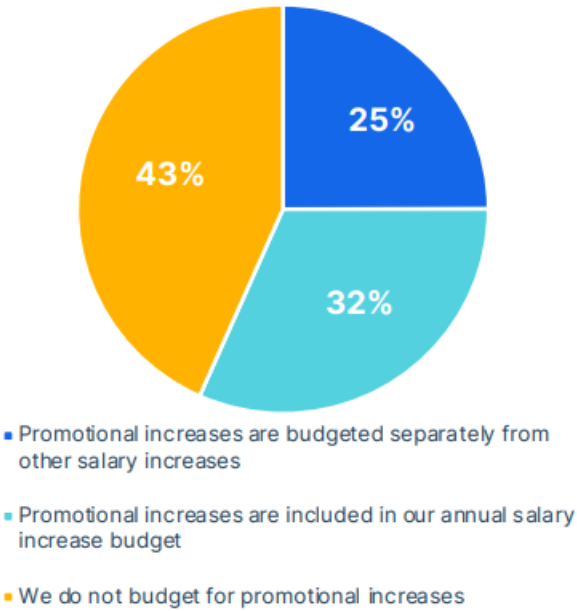| Prior year increases were higher than usual	Concerned about future economic conditions or business performance	Reduced competition for labor or labor supply surplus	Change in compensation philosophy or competitive positioning	Other
59%	41%	13%	2%	16%

What about promotion budgets?

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Only a little over half of organizations (57%) plan for promotional increases

United States

How does your organization budget for promotional increases?

Base n=1,197

- 25%
- 32%
- 43%

- ■ Promotional increases are budgeted separately from other salary increases
- ■ Promotional increases are included in our annual salary increase budget
- ■ We do not budget for promotional increases

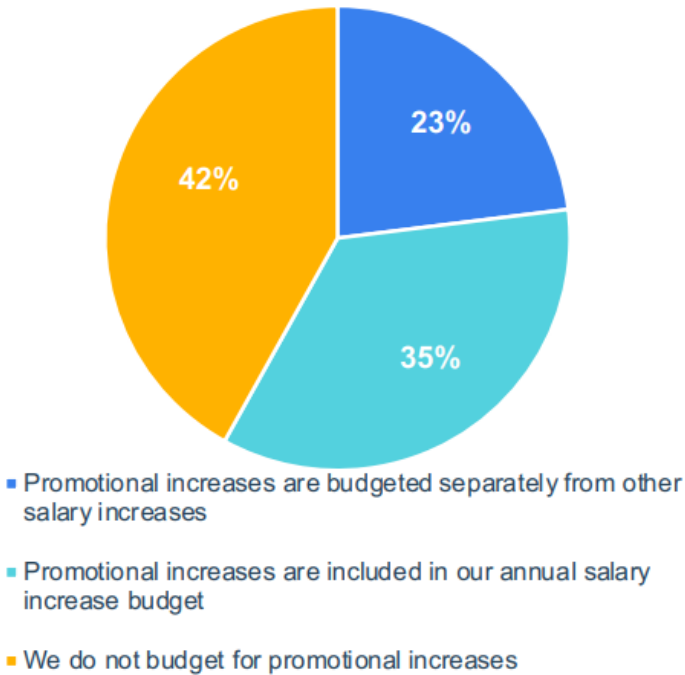| What is your organization budgeting for promotional increases?	Actual 2024	Expected 2025
	3.1%	3.0%

Percent of Employees that Received a Promotional Increase in 2023	4.9%
2023 Average Promotional Increase as Percent of Employee Base Salary	5.6%

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Planned increase budgets for promotions tend to be lower in Canada

Canada

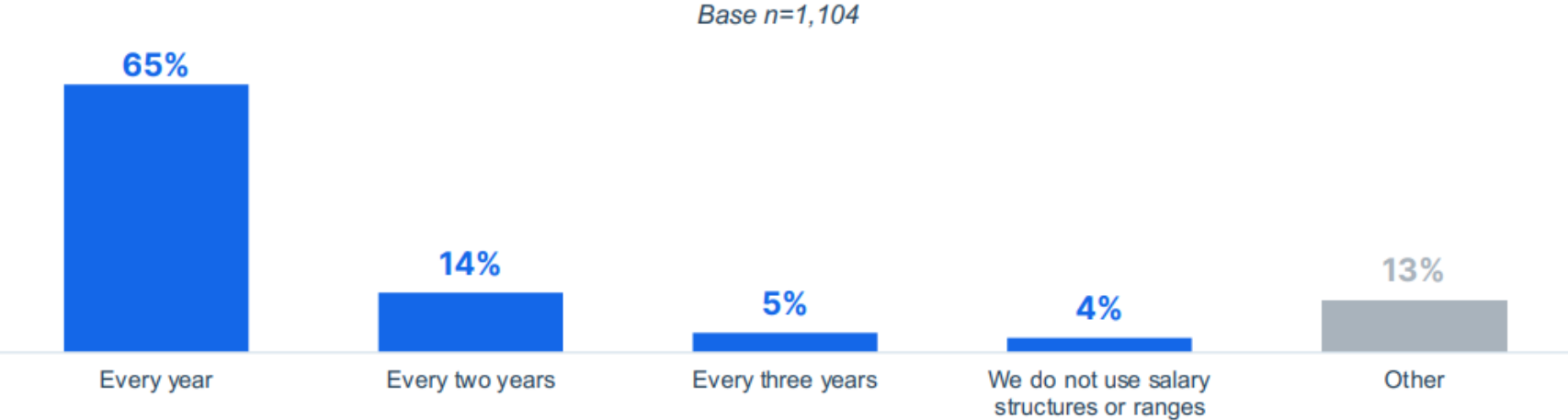**How does your organization budget for promotional increases?**

Base n=291

- 23% Promotional increases are budgeted separately from other salary increases
- 35% Promotional increases are included in our annual salary increase budget
- 42% We do not budget for promotional increases

What is your organization budgeting for promotional increases?	Actual 2024	Expected 2025
	2.1%	2.3%

Percent of Employees that Received a Promotional Increase in 2023	4.7%
2023 Average Promotional Increase as Percent of Employee Base Salary	5.4%

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What about market adjustments?

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How often does your organization adjust your salary structure and/or salary ranges?

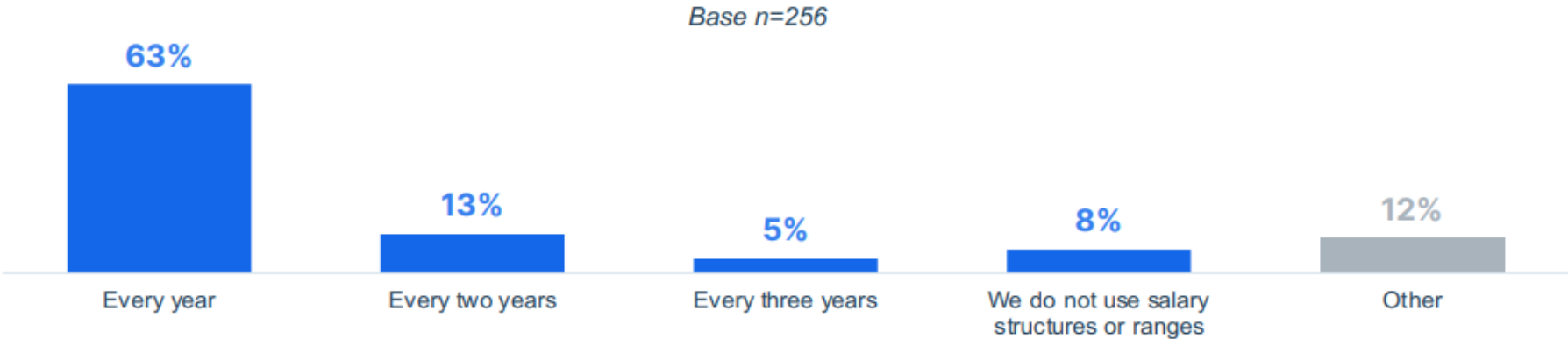*Base n=1,104*

	Every year	Every two years	Every three years	We do not use salary structures or ranges	Other
	65%	14%	5%	4%	13%

TOTAL SAMPLE

All Respondents	2024 Actual Increases		2025 Planned Increases	
	Count	Average	Count	Average
Non-exempt Employees	870	2.2%	822	2.2%
Exempt (Non-management) Employees	868	2.2%	825	2.2%
Managers	863	2.2%	830	2.2%
Officers & Executives	781	2.0%	760	2.0%

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Canada

How often does your organization adjust your salary structure and/or salary ranges?

Base n=256

	Every year	Every two years	Every three years	We do not use salary structures or ranges	Other
	63%	13%	5%	8%	12%

TOTAL SAMPLE

All Respondents	2024 Actual Increases		2025 Planned Increases	
	Count	Average	Count	Average
Non-exempt Employees	186	2.1%	184	2.0%
Exempt (Non-management) Employees	191	2.1%	189	2.1%
Managers	189	2.1%	188	2.1%
Officers & Executives	168	1.8%	166	1.8%

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Best practices for building
a compensation budget

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Poll: How often do you go through salary budgeting processes?

A. As often as you run your cycles (e.g. twice a year, annually)

B. We do it as needed

C. We never do this

D. Unsure

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4 steps to building your comp budget for 2025

Approvals
- Stakeholders
- Your role
- Calendar
- Fit within comp plan
- Revisions & reactions to market changes

Proposal
- Types of increases
- Inputs & alignment
- Timeline
- Which jobs?
- Impacts

Validation
- Talent vs. pay strategy
- Methodology
- Deviations
- Exceptions
- Data sources
- Pay analysis
- Metrics

Kickoff
- Test first
- Pull some examples
- Send proposal
- Balancing
- Consistency

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Considerations for different organizations

- **Industry:** What's typical in your industry?

- **Company Size/Stage:** Sometimes different company sizes or stages changes the way you view total compensation

- **Remote Strategy:** Are you fully remote, hybrid or in person?

- **Historical context:** Is this a new process for the organization or old process? Is there a standard approach already?

- **Merit eligibility:** Are all of your current roles merit eligible? Which parts of your program are eligible- merit and market? How often? How do you allocate? Ex: 1/3 vs half at beginning of the year, etc.
    - For roles not merit eligible, do you have a lever for rewarding additional compensation if needed?

- **External Market Conditions:** The market is in flux – this is an especially critical factor right now. What does this mean for your specific company or what could it mean?

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Even if you have a large budget for your size of organization it will never feel like enough…

Start with identifying critical and high performing talent

Think about where you have other people-related issues (recruiting, attrition, etc.)

Set expectations early with managers and leaders about their role in budgeting

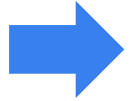Start conversations early and often around comp related concerns

Be realistic about what you can accomplish
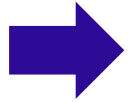
Communicate, communicate, communicate

Once you've done the work, what are your next steps?

➡️ Think about how you can level set expectations - especially when larger increases were given in previous years

➡️ Start planning how you will communicate out your decisions – communicate early and often around the process, timeline and what to expect

➡️ Create a plan to ensure you are adhering to your budget guidelines

➡️ Ensure that at all stages during and after the budgeting process, you are aligned to your overall compensation strategy

➡️ Take note of changes to the process that need to be reflected the next time around

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Payscale compensation planning software

Compensation Planning

For organizations looking to create a collaborative and robust compensation planning process.

Drive efficiency with powerful configuration and workflow control

Automate everything from budget allocation to approval processes so you can save time, reduce errors, provide appropriate oversight.

Manage risks and governance throughout the budgeting and review process

Ensure consistent application of compensation principles with configurable real-time alerts for front line and oversight users

Increase confidence in pay decisions with transparency at all levels

Provide key decision insights to support informed pay decisions that are demonstrably transparent and fair to maximize employee understanding and engagement of pay.

Interested in a demo of Payscale's Compensation Planning solutions?

Let us know in the polls tab and a member of the team will be in touch!

Q&A

Feel free to ask any questions in the chat!

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