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# Optimizing your pay increase cycle

Linking pay increases to performance, facilitating internal equity, equipping pay communications, and utilizing the right compensation planning tools

Quick guide

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# Balancing competing priorities during your pay increase cycle

We asked organizations about their top compensation challenges in our Compensation Best Practices Report. Budgeting and managing pay increases topped the list, followed by rewarding performance and maximizing compensation budgets.

As economic conditions have become less certain, some organizations have sought to reduce spending on compensation. At the same time, these organizations still need to retain talent while allocating budget to address internal pay inequities.

The competing priorities of rewarding employee performance, addressing fair pay, and maximizing compensation budgets come into sharp focus during pay increase cycles.

Optimizing your pay increase cycle means balancing the above priorities by engaging the right stakeholders and leveraging the right tools.

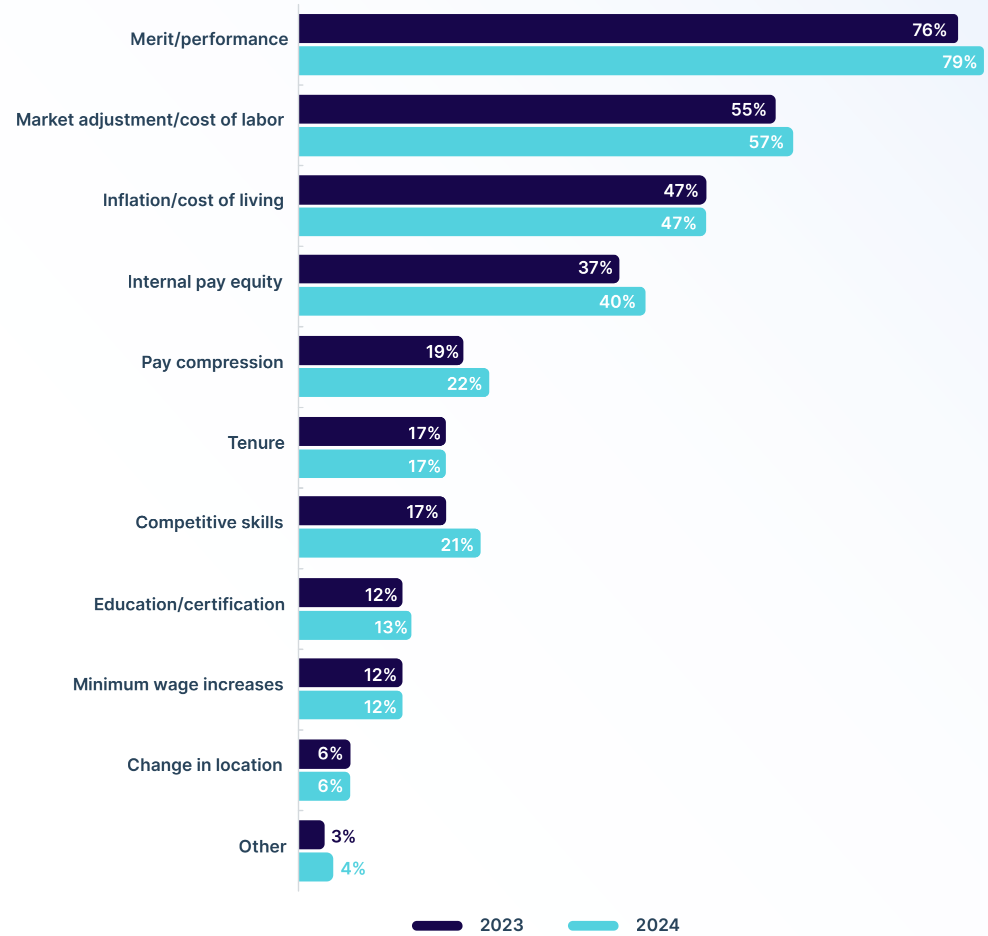
Compensation planning is a must for every organization, but this guide will be especially useful for those who desire both flexibility and oversight in managing pay increase cycles. It will also assist HR departments who want greater collaboration with people managers in allocating increases, while also implementing budgetary guardrails.

# #1. Reward performance in the context of employees' position-in-range

According to our Compensation Best Practices Report, rewarding performance is the most important compensation priority. Additionally, when we asked organizations what factors they planned to use in making pay increases, 79 percent cited merit and performance, making it the top consideration.

At the same time, as the graph to the right shows, market adjustments and internal pay equity also rose as factors in pay increase decisions

Rewarding employees with pay increases requires compensation professionals to consider both worker performance and their position-in-range. It involves weighing market competitiveness against deliberations about internal equity, all while accounting for budgetary realities.



## Using a merit matrix helps HR specialists align pay increases with their organization's compensation strategy.

Take the simple chart to the right as an example. It plots employee performance along the Y axis (a 5-point performance scale) and their position-in-range along the X axis.

As this chart shows, employees are rewarded with pay increases based on performance and their position-in-range. For example, exceptional performers (5's) in the top third of their pay range receive the same percentage increase as satisfactory performers (3's) in the bottom third of their range.

The art of compensation management calls for awarding employees in a way that's consistent with an organization's compensation strategy. Some will be more aggressive in rewarding top performers, while others will focus on raising the salaries for employees lower in their range to foster internal equity over time.

Robust compensation planning tools give HR professionals a bird's-eye view of how pay increases are allocated across their organization. These tools ensure people managers and other stakeholders understand the guidance created by merit matrix modeling and other methods.

With the right compensation planning solutions, HR specialists gain oversight into the pay increase cycle, ensuring strategic alignment on planned increases.

### Position-in-range

| Ratings | Bottom third (20%) | Middle third (65%) | Top third (15%) |
|---|---|---|---|
| 5 (15%) | 6.0% | 5.0% | 3.5% |
| 4 (40%) | 4.0% | 3.0% | 2.5% |
| 3 (35%) | 3.5% | 2.5% | 2.0% |
| 2 (10%) | 2.0% | 1.5% | 0.0% |
| 1 (0%) | 0.0% | 0.0% | 0.0% |

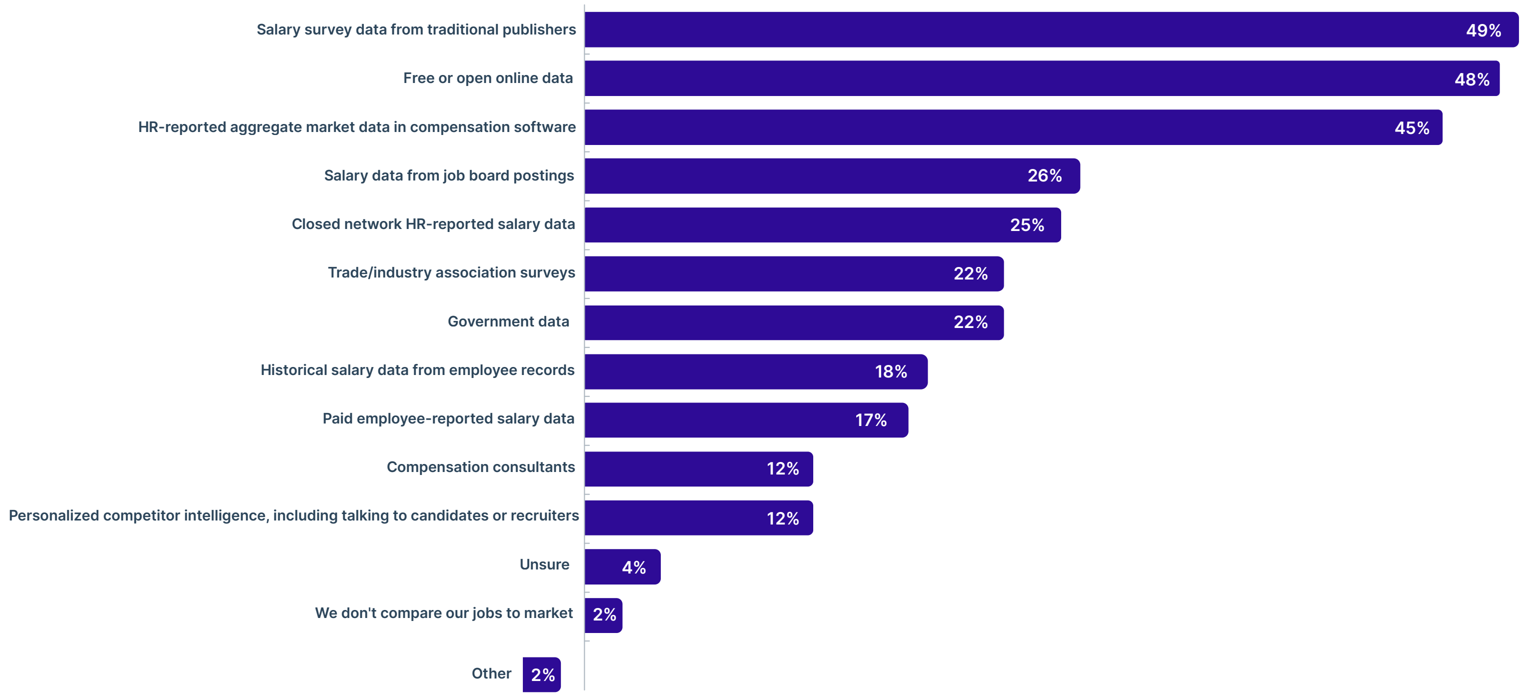
## #2. Use the most up-to-date salary data

The foundation of pay increase decisions is salary data. According to our Compensation Best Practices Report, 56 percent of organizations use two to four sources of salary data, and 16 percent use more than five sources.

Multiple sources of salary data help organizations keep pace with wage growth in fast-moving industries. Organizations need a strategy to adapt and respond when the market climbs quickly.

Do your compensation planning processes and tools allow you to adjust pay increases in the middle of a cycle? Can you respond to changing market conditions? Modern compensation planning requires reacting quickly by leveraging the newest and most transparent market data.

While traditional third-party surveys remain the most popular source of salary data, more organizations have begun to rely on HR-reported aggregate data in compensation software (such as **Payfactors**) along with closed network HR-reported data (Payfactors' Peer).



We expect that even more organizations will adopt compensation software with dynamic data sets to inform pay increases and bonus decisions. Having the most up-to-date salary data at your fingertips offers an enormous advantage for compensation planning.

**Payscale's compensation software portfolio delivers the freshest and most transparent salary data to make informed pay increase decisions.**

Learn more →

# #3. Address pay inequities

Your pay increase cycle also provides an opportunity to address internal pay inequities. With pay transparency laws and the growing trend of organizations listing salary ranges in job postings, organizations are reassessing their commitment to fair pay.

At the same time, organizations are experiencing increased tension between two necessary priorities: ensuring pay fairness and optimizing compensation budgets. Through hiring, promotion, and talent mobility, organizations are constantly balancing and rebalancing these goals.

This is a challenging task given employees' increasing dissatisfaction with their pay. According to a Pew Research Center report, only 30 percent of employees are highly satisfied with their pay – down from 34 percent a year ago. Furthermore, 80 percent of employees say their pay has not kept up with the cost of living, according to the same report.[1]

This contradicts evidence from the U.S. Bureau of Labor Statistics reported in Payscale's End-of-Year Report, which found aggregate wage growth has exceeded inflation since 2020. These findings suggest that many employees' pay perceptions do not coincide with reality when it comes to inflation and wage growth.

Given this context, it's more important than ever for compensation professionals to strengthen pay perceptions while also resolving existing internal inequities. The increase cycle is a moment of great importance in the employee experience journey, which HR can leverage to foster mutual value.

High-quality compensation planning tools enable organizations to review pay increases across demographic groups. This gives them the ability to optimize budget with salary adjustments that have the highest impact in reducing risk.

[1] Lin, Luona, Juliana Menasce and Richard Fry. "Most Americans Feel Good About Their Job Security but Not Their Pay." *Pew Research Center*. December 10, 2024. https://www.pewresearch.org/social-trends/2024/12/10/most-americans-feel-good-about-their-job-security-but-not-their-pay/ Accessed: January 24, 2025.

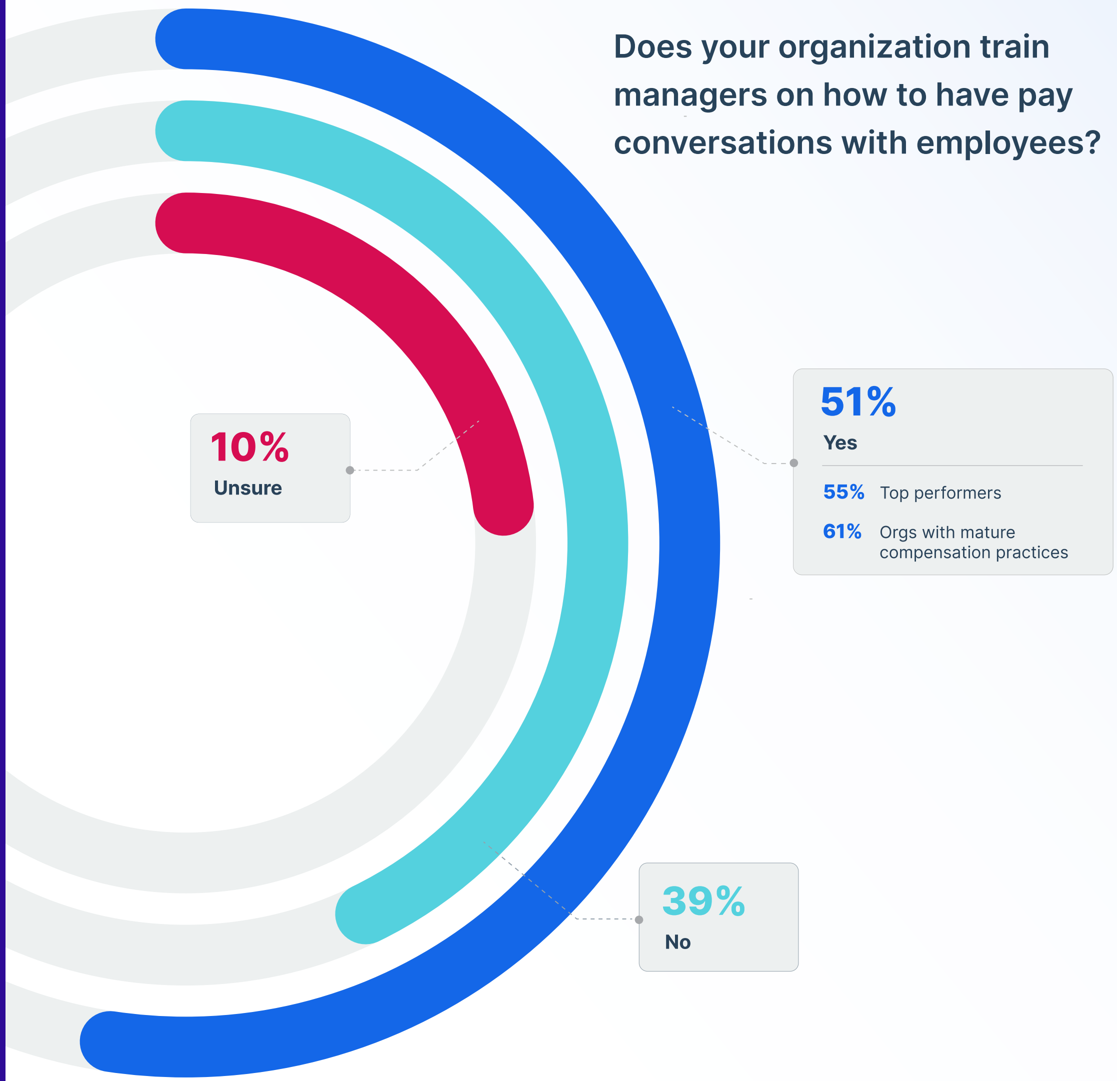
# #4. Foster productive pay communications

Recognize that employees will compare their pay with colleagues, family, and friends. With pay transparency and the wealth of online salary data available, employees today have a clearer sense of the market worth of their role.

Optimizing your pay increase cycle isn't just about rewarding performance and addressing fair pay. It's also about effectively communicating pay decisions with employees.

Unfortunately, when we asked organizations if they train managers on how to have pay conversations with employees, only half (51 percent) reported that they did. This number has barely budged from last year's Compensation Best Practices Report, which showed 49 percent of organizations trained managers on pay communications.

**Does your organization train managers on how to have pay conversations with employees?**

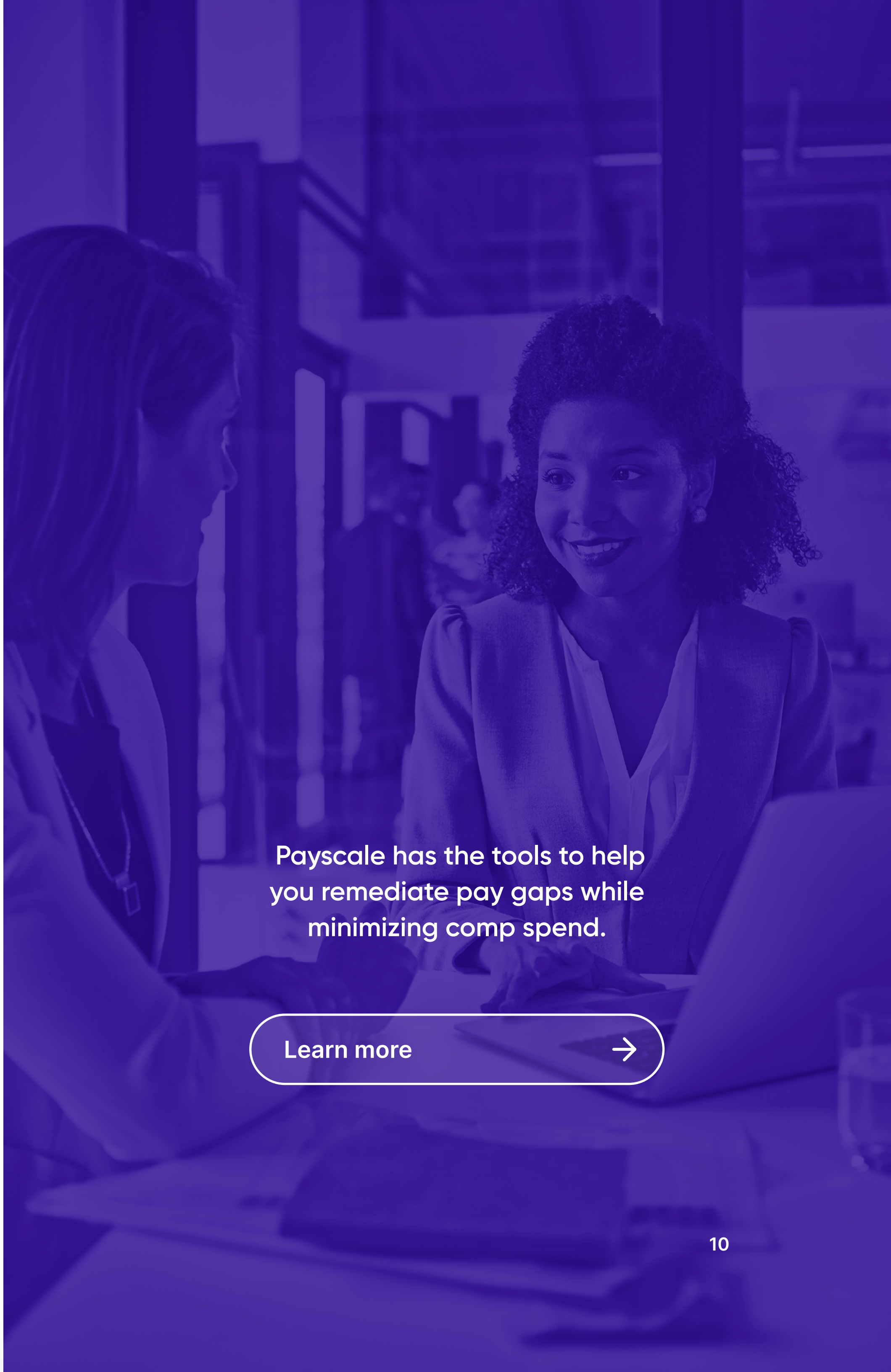


**With a majority of employees reporting that their pay is inadequate, every organization should be training people managers to have productive pay conversations.**

Additionally, compensation professionals must prepare to engage in difficult conversations with people managers about pay increase recommendations, especially when there is a need to go above budget to retain key staff.

Fostering effective pay communications takes effort. Here are a few tips to get you started:

- Create talking points around your organization's compensation philosophy
- Share information about your compensation plan, including pay grades, job levels, and career paths
- Understand the details of each employee's compensation, including their total rewards package
- Train managers to communicate pay changes effectively, increasing both manager confidence in pay discussions and employee understanding of the what and why behind their pay



## How Payscale can help

Optimizing your pay increase cycle and balancing competing priorities demands robust compensation planning.

Many of the bolt-on comp planning modules from HRIS providers work in out-of-the-box scenarios but quickly show their limitations in practice. Consider the proration of pay increases as an example. When you use a comp planning tool in your HRIS system, you're married to the data in that system. And it may not show if an employee needs to have their pay increase prorated based on variables such as hire date, leaves of absence, or transfers and promotions.

For organizations looking to reduce overall compensation spend, not overspending on pay increases in light of employee tenure would be a priority and a straightforward way to make the most of every budgeted dollar.

Payscale's Compensation Planning Software empowers comp professionals with a customizable system for allocating pay increases (and bonuses), whether that involves proration or any other variables specific to your organization.

Additionally, with its flexible and configurable version control capabilities, you can design your own governance structure, deciding what managers will see in making pay increase recommendations and defining different rules for each department for a frictionless approval workflow.

Finally, we not only offer complete support during implementation but will refresh your pay increase and bonus plan each year as your compensation strategy and goals evolve.

**With Payscale's bespoke comp planning software you'll always be prepared for your increase cycle.**

Learn more →

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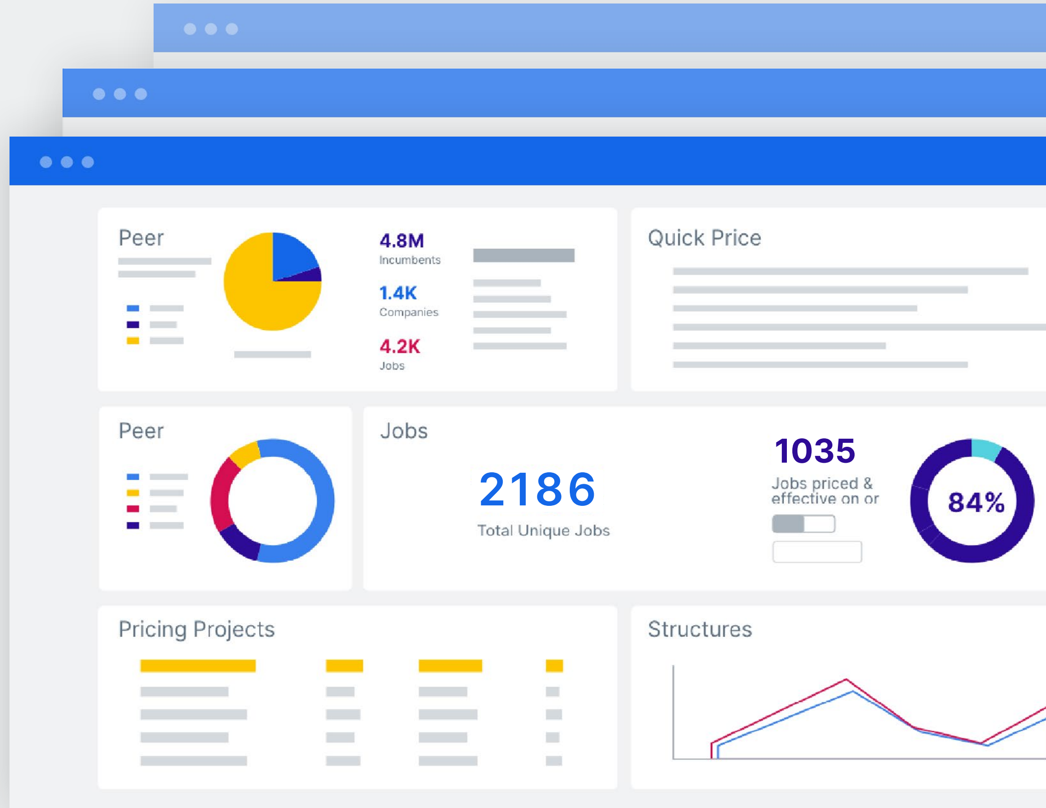
# Additional resources

Check out these resources from our compensation experts.

- **Webinar:**
  [Unlock efficiency and fairness with Payscale Compensation planning]
- **Whitepaper:**
  [The cost of getting pay wrong]
- **Ebook:**
  [Implementing compensation planning software]

Get a demo →




## About Payscale

As the industry leader in compensation management, Payscale is on a mission to help job seekers, employees, and businesses get pay right and to make sustainable fair pay a reality. Empowering more than 65% of the Fortune 500, Payscale provides a combination of diverse and dynamic data sources, experienced compensation services, and scalable software to enable organizations such as Panasonic, ZoomInfo, Chipotle, AccentCare, University of Washington, American Airlines, and PetSmart to make fair and appropriate pay decisions. Pay is powerful. To learn more, visit www.payscale.com.