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PLAN AHEAD: Compensation Strategies for 2026

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Total Rewards Halo™

A dynamic model to attract, retain, motivate and engage your employees resulting in optimal organizational performance.

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Key Focus Areas

1

Compensation Market Trends

Keeping up with a fast-changing market

2

2026 Base Compensation Increase Budgeting

Market data you need to know

3

2026 Variable Compensation Trends & Budgeting

Total compensation is more than base pay

It's poll time!

How confident are you in your compensation increase **budgeting and strategy** for 2026?

KEY FOCUS AREA 1

Compensation Market Trends

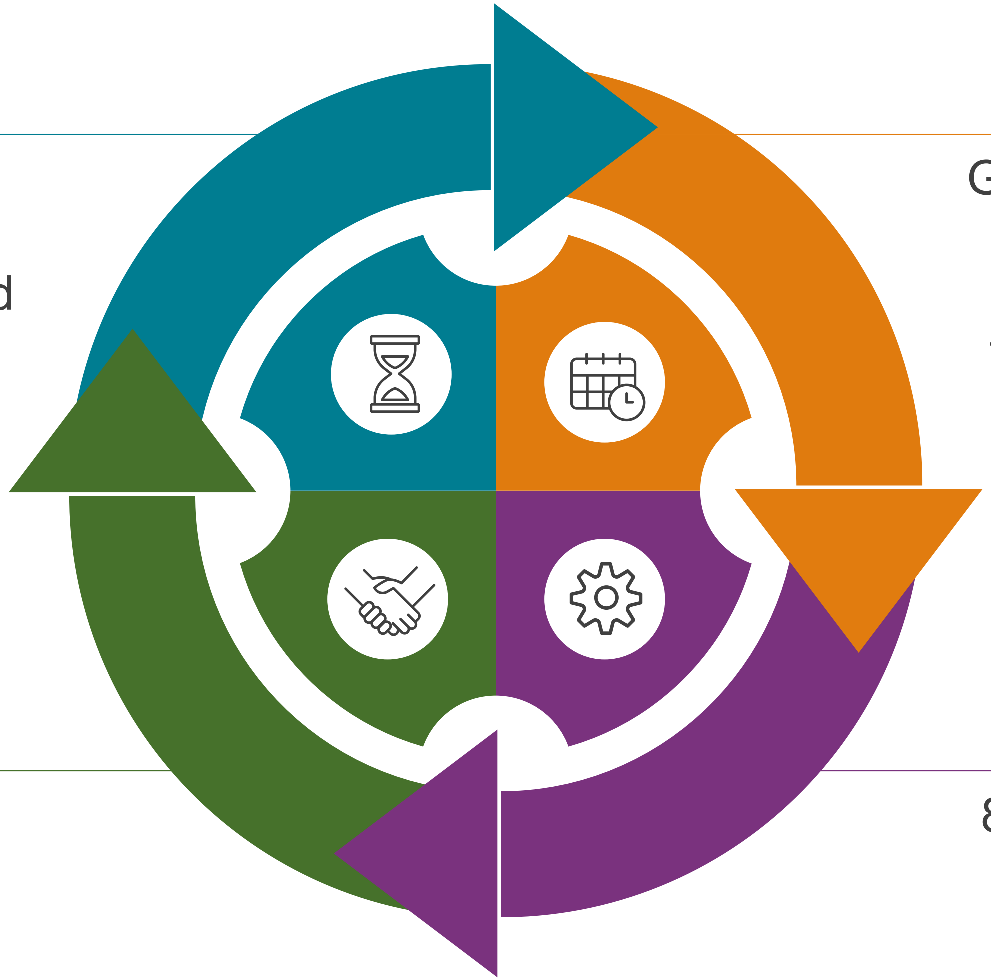
The “Why Now” Moment

TIGHT LABOR MARKET

7.4 million job openings vs 7.2 million unemployed

RISING REGULATIONS

Growing number of states + localities with pay transparency laws



EQUITY IMPERATIVE

$1.6 trillion wage gap spotlight

EMPOWERED CANDIDATES

83% of candidates research salary before applying

[Bureau of Labor Statistics, July 2025 Employment Data]

Key Economic Factors that Influence Compensation

As unemployment increases, wages stabilize.

	Average Salary Increase Budget	Average Salary Structure Increase	Unemployment (Labor Market)	Consumer Price Index (Inflation)
2022	4.1%	2.7%	4.2%	7.2%
2023	4.4%	2.8%	3.6%	3.0%
2024	3.9%	2.5%	4.1%	3.0%
2025	3.8%	2.3%	4.1%	2.4%

Source: *World at Work 2024-2025 Salary Increase Budget Survey*

This is Why

“”

Overall increase budgets trending lower in 2026 than in 2024 - 2025.

However, there is **more uncertainty overall.**

Compensation Market Overview

The labor market is cooler—

but still tight enough to require precision in offers

Keep **ranges current** (annual structure updates + mid-year benchmark data spot checks in hot jobs)

Compensation Market Overview

Salary-increase budgets are normalizing, with modest further cooling into 2026

Plan 2026 base budgets conservatively (stay tuned for the information you need!), and reserve separate pools for **equity adjustments** and **promotions**

Compensation Market Overview

Variable pay is carrying more of the load - especially for retention

Pressure-test your **incentive plan goals** and payout curves so they are financeable under slower growth and still differentiation-friendly at the team/individual level

Consider long term incentive plans as a retention strategy for key leaders (such as nonqualified deferred compensation

Compensation Market Overview

Dedicated budgets for pay equity remediation (including compression and market adjustments) and promotions are becoming standard practice

Set aside separate budgets for pay adjustments and promotions (not tied to regular raises) if needed

Compensation Market Overview

Total Rewards trade-offs intensify (benefits cost growth vs. cash)

Explicitly quantify the employer value of benefits (medical, retirement, PTO, recognition, flexibility) in **offer letters** and **manager talking points** to close perceived gaps in compensation

Compensation Market Overview

Pay communication is a differentiator

Build a **pay communication framework** by audience (executives, decision-makers, managers, employees) with reusable content and FAQs

It’s poll time!

What strategies are you using to **communicate** compensation decisions?

It’s poll time!

How **transparent** are you with pay?

It is likely that **nearly 50%** of US employees will be covered under pay transparency laws in 2026.

2025 U.S. Pay Transparency Laws Status Check | Trusaic

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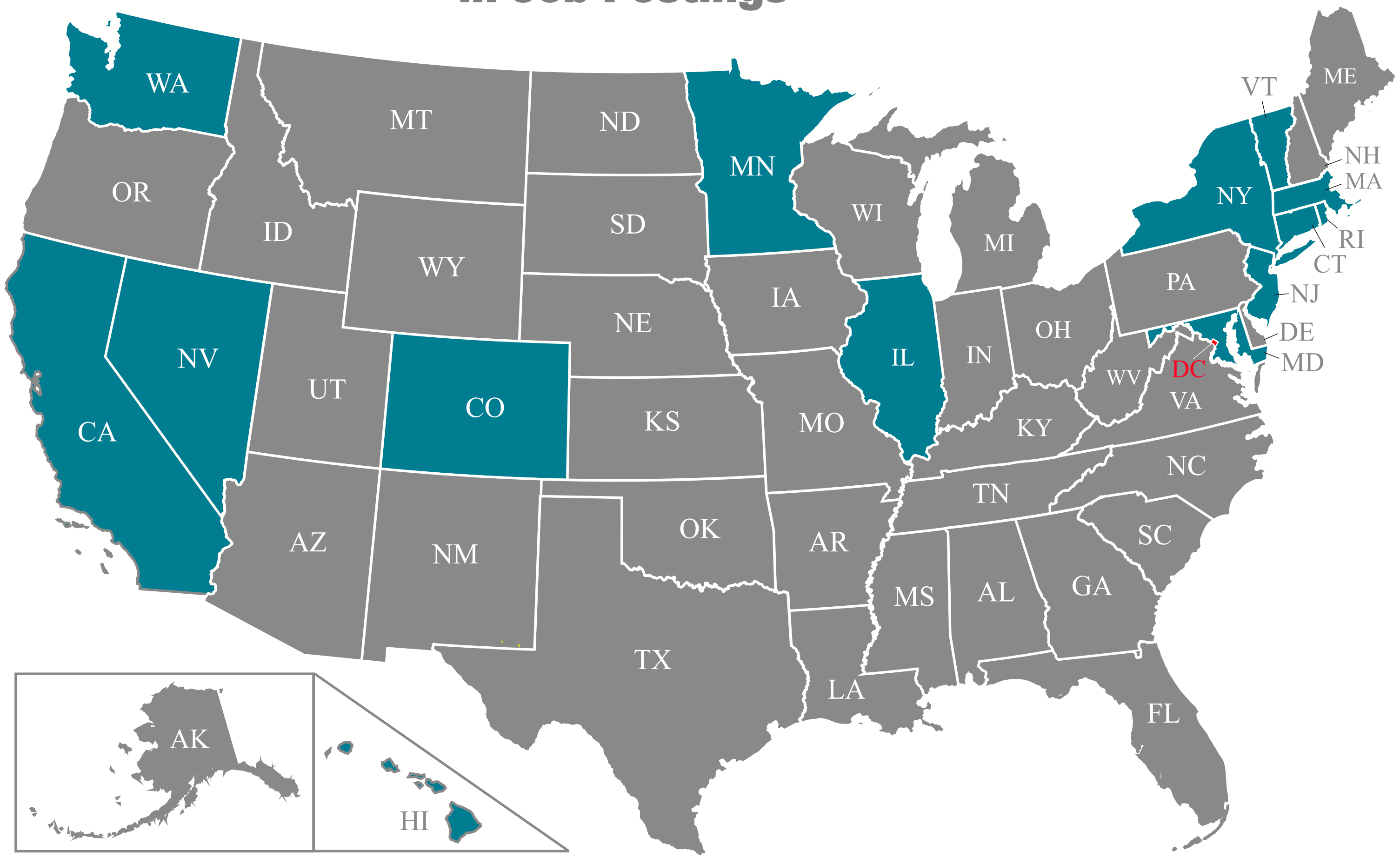
Current State of Pay Transparency

States Requiring Wage Disclosure to Applicants and/or in Job Postings



Requiring Wage Disclosures

Not Requiring Wage Disclosures

Vermont – July 1, 2025

Massachusetts – October 29, 2025

[2025 U.S. Pay Transparency Laws Status Check | Trusaic]

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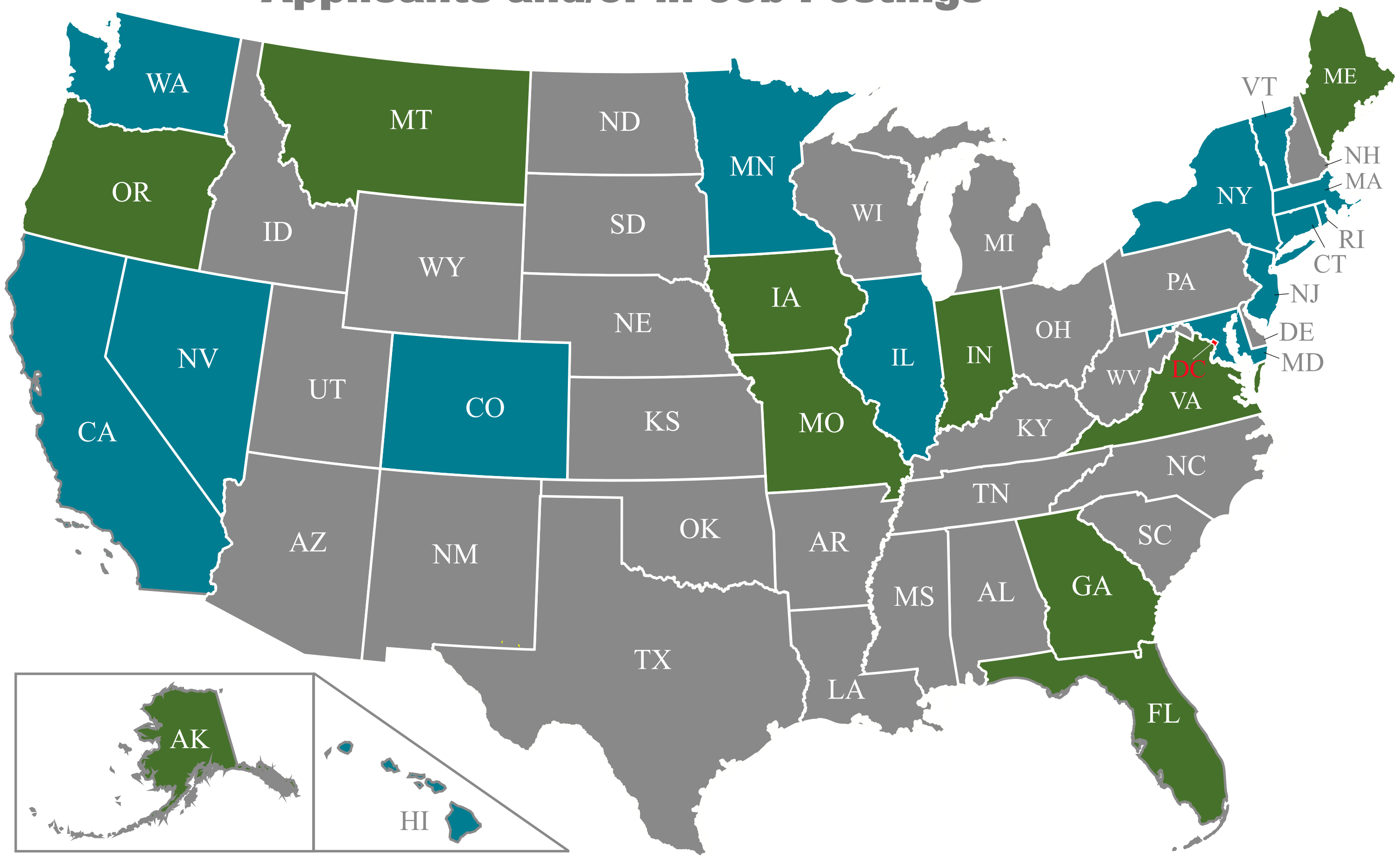
Current State of Pay Transparency

States Requiring or Proposing Wage Disclosure to Applicants and/or in Job Postings



- Requiring Wage Disclosures
- Not Requiring Wage Disclosures
- Proposed Pay Transparency in 2025

Vermont – July 1, 2025

Massachusetts – October 29, 2025

[2025 U.S. Pay Transparency Laws Status Check | Trusaic]

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Common Legislative Themes

Posting Requirements:
Range disclosure in job postings

Request Rights:
Candidates can ask for ranges

History Bans:
No salary history inquiries

Internal Equity & Consistency:
Employee disclosure rights

Emphasis on the *spirit* vs. the letter of the law

The Cost of Non-Compliance

Reputational damage

Talent pipeline attrition

Employee dissatisfaction and turnover

Direct Costs
Fines ($250 - $300K per violation)

Brand Damage
Public enforcement actions

Talent Flight
67% avoid non-transparent employers

Recruiting Inefficiency
Misaligned expectations

Employee Morale
Internal trust erosion

What is Pay Transparency, Really?

The Transparency Spectrum

LEVEL 1:
Basic range posting
($65K - $85K or $18.00/hour)

LEVEL 2:
Contextual ranges
($65K - $85K based on experience, location, skills)

LEVEL 3:
Framework transparency (how we determine pay)

LEVEL 4:
Individual pay communication
(your pay + rationale)

Common Objections & Responses with Business Leaders

"Our competitors will see our pay ranges."

Response: They likely already know through employee movement and market intelligence. Transparency levels the playing field and shows confidence in your compensation strategy.

"It will drive up our costs."

Response: Initial adjustment period may see some increases, but improved retention, faster hiring, and better candidate quality typically offset costs within 12-18 months.

"Our ranges are too broad to be meaningful."

Response: That's a signal that your job architecture needs refinement. Broad ranges with clear criteria can still be transparent and effective.

“It will expose our inequities."

Response: This isn't a problem to hide; it's an opportunity for HR to lead the charge in auditing, rectifying, and then openly communicating how the organization is addressing these gaps.

THE BOTTOM LINE

Employees want clarity and fairness in how they’re paid—and they’re looking to their employers to provide it.

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KEY FOCUS AREA 2

2026 Base Compensation Increase Budgeting

Prediction

The labor market will continue to stabilize in 2026 and compensation pressures will continue to stabilize.

Prediction

Salary increase budgets are stabilizing in the low-to-mid 3% range into 2026, with organizations using more **targeted differentiation** (promotion/equity pools) rather than broad, across-the-board increases.

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2026 Planned Overall Increases

3.6%

WorldatWork® Total Rewards Association

3.5%

payscale

3.4%

THE CONFERENCE BOARD

3.5%

wtw

3.5%

KORN FERRY

3.2% - 3.3%

Gallagher

Executives 3.2%, Managers and Nonexempt 3.3%

4.0%

AON

Merit is 3.5%

Overall Numbers

Salary Increase Budget Numbers

Annual Budget Increases

Compare the numbers. What are you including?

Merit

Market

Promotions

General Increase

Additional Planned Increases

70% of organizations expect to make adjustments for pay equity reasons – including those for internal equity among employees and those needed to adjust for gaps due to protected classes.

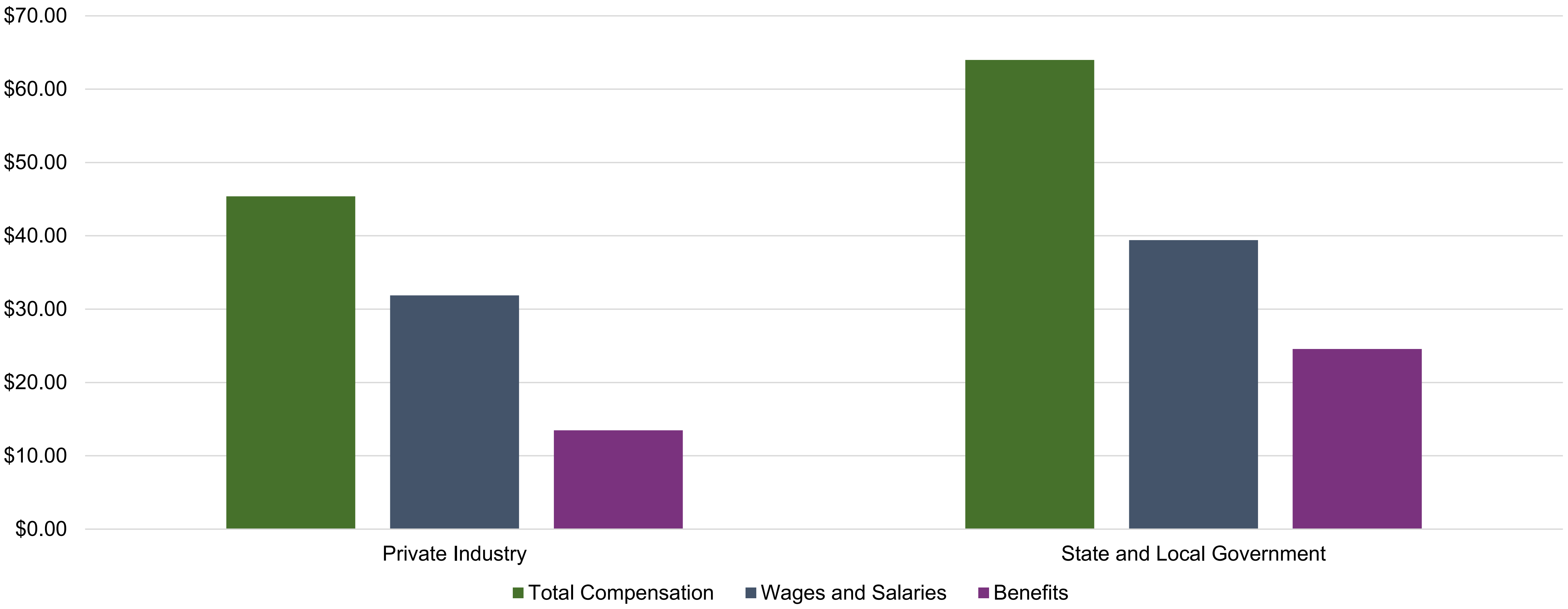
Source: World at Work Salary Budget Survey 2024-2025

Industry, Size & Geography Trends

Industry Trends

- There is not a large variation in industry data this year
  - Government (public sector) continues to be the highest
- More important than focusing on specific industry ranges are factors such as:
  – budget
  – how competitive you are and desire to be in compensation
  – your overall total rewards value proposition

Employer Costs per Employee Hour Worked



As of March 2025. Source: [Employer Costs for Employee Compensation Summary - 2025 Q01 Results]

Geographic Trends

- Salary increase budgets are very consistent among state and metropolitan regions within the United States.

- If you have employees in different locations (including remote employees), it’s important to have a philosophy and strategic approach.

- With remote work recruiting you should be aware of compensation transparency laws where you are attracting talent.

Organization Size Trends

Salary increase budgets continue to be larger in smaller organizations.

As organizational size increases, average planned salary-increase budgets generally tick down—

and smaller firms are likelier to budget a bit more.

Why?

- Budget Elasticity & Speed
- Talent market positioning: leaning into pay to attract/retain talent

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Pay-for-Performance

High performers typically receive **1.5–2x the merit increase** of average performers, even as overall salary budgets stabilize around **3–3.5%**.

Companies are using **promotion pools and equity adjustments** to reward top talent without inflating base pay across the board.

Staying Market Competitive

Pay Structure Increases

How Should We Increase Our Pay Ranges for 2026?

- What is a salary structure or a pay range?
  - A hierarchy of pay ranges with established minimums and maximums.
- Unless you have very recently completed a market study and updated your ranges, we suggest increasing these annually based on a common percentage (“aging”).
- Increasing pay ranges in the salary structure generally lags annual increase budgets so employees can progress through the ranges.
- This year is projected at **2.2% (median)** or **2.3% (average)**.
  - Officers/executives are slightly lower
  - Last year, the overall actual structure adjustment was ~2.5%

Source: World at Work Salary Budget Survey 2024-2025

How to Increase Pay Ranges

Pay Grade	Min	Mid	Max	Increase Percent	New Min	New Mid	New Max
12	$126,000	$157,500	$189,000	2.5%	$129,200	$161,400	$193,700
10	$95,100	$116,500	$137,900	2.5%	$97,500	$119,400	$141,300
8	$73,400	$88,100	$102,800	2.5%	$75,200	$90,300	$105,400
6	$59,200	$68,100	$77,000	2.5%	$60,700	$69,800	$78,900
4	$23.51	$26.44	$29.38	2.5%	$24.10	$27.10	$30.11
2	$21.88	$24.04	$26.25	2.5%	$22.43	$24.64	$26.91

- Your pay grade nomenclature and amounts will vary based on your unique structure.
- Determine your annual increase percent – consider your overall increase budget and what is affordable, along with how recently you have completed a market update. If your grades were recently updated, you may be able to go with a lesser increase amount in the range.
- Consider rounding the new pay grade amounts, particularly for exempt ranges.

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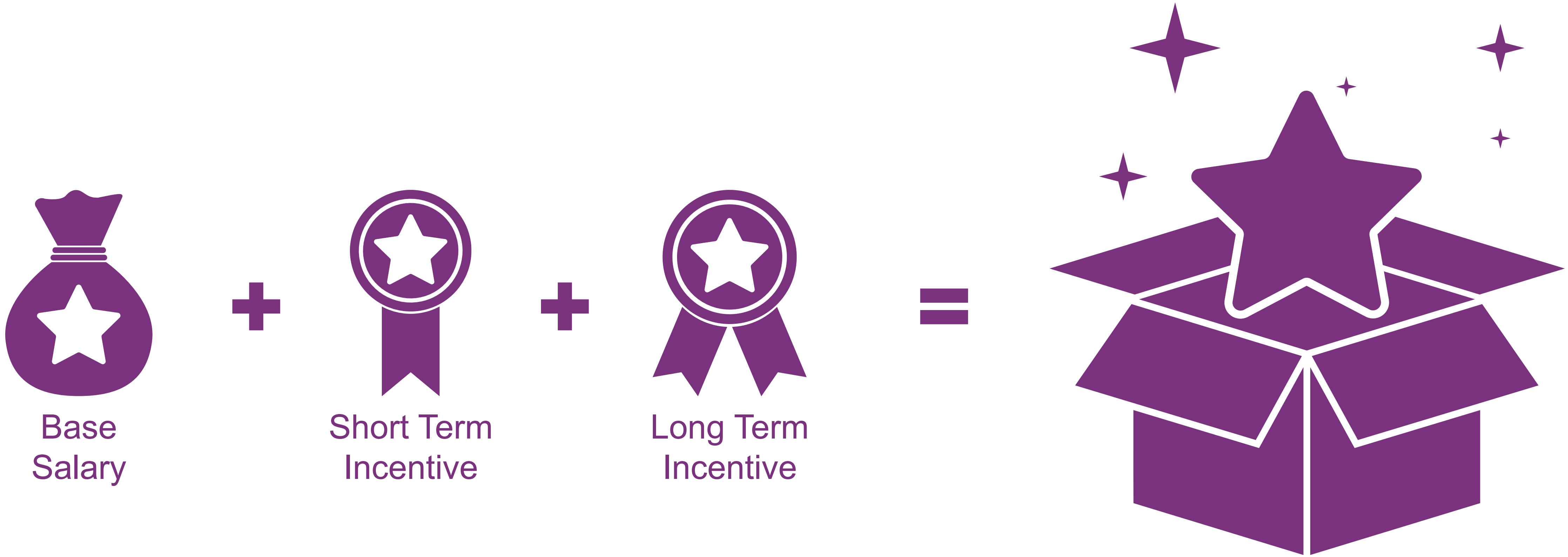
KEY FOCUS AREA 3

2026 Variable Compensation Trends & Budgeting

Total Cash Compensation Package



What is Variable Pay?

Pay that varies or is “at risk” – it can be performance-based, lump-sum, short term cash awards; organization-wide awards, business unit awards and/or individual incentive awards.

It’s poll time!

Do you offer a **short-term incentive program** (such as an annual bonus)?

Variable Pay Programs

Variable pay is taking on a **bigger role** as salary increase budgets continue to normalize.

Employers are using variable pay to **preserve flexibility** amid tighter salary budgets and economic uncertainty.

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Variable Pay Programs

Broad-based Short Term Incentive opportunity for non-executives are projected to remain around **7% of base** pay for nonexempt employees and 15% of base pay for exempt employees.

- Note, specific benchmark data is the most accurate source for targets by position.

Executive STI targets typically remain much higher, often **30%+ of base salary**, with some organizations layering in long-term incentives and nonqualified deferred compensation for retention and tax efficiency.

Variable Pay Programs

Plan design continues to emphasize blended company/individual metrics.

- Payouts average around ~90–110% of target in typical years

It’s poll time!

Do you offer a **long-term incentive program** (such as deferred compensation or equity)?

Key Trends: Executive Compensation Adapting in Uncertain Times

Shift in Compensation Models

Move from salary increases and blanket perks to more financially disciplined, flexible and sustainable strategies.

Economic Uncertainty

The economy's unpredictable nature is reshaping compensation approaches.

Strategic Rebalancing

Companies are focusing on the long-term value of executive benefits over short-term gains.

The Executive Talent Gap Is Growing

Boomers Retiring

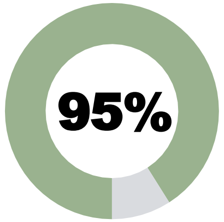
As baby boomers exit, talent gaps are emerging, particularly in industries like construction.

Extended Tenure

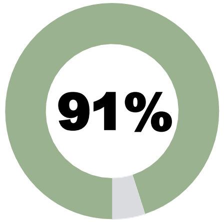
Many key employees are delaying retirement but lack adequate retirement planning support, presenting an opportunity for tailored executive benefits strategies.

85%

Cannot afford to lose top talent.



Say executive benefits are successful in **retaining** top talent.



Say executive benefits are successful in **recruiting** top talent.

NQDCPs: Strategic, Flexible and Growing in Value

The Role of Nonqualified Deferred Compensation Plans (NQDCPs)

These plans offer both cost-effectiveness for employers and tax advantages for key employees.

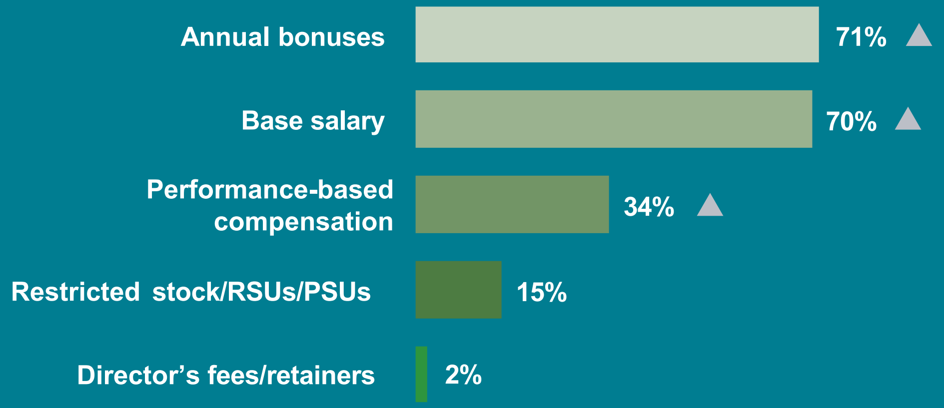
Increasing Participation

As inflation and future tax rates concern employees, many are increasing their participation in NQDCPs, seeing them as essential for long-term financial planning.

83%

Allow participants to defer compensation.

Types of Deferrable Compensation



Anticipated Participation in Nonqualified Deferred Compensation Plans
(Over the next 12-18 months)

17%

Say **inflation** will increase participation.

19%

Say **future tax rates** will increase participation.

More Than Retention: The Strategic Role of NQDCPs

Beyond Retention

NQDCPs support not only retention but also long-term retirement planning and help executives gain control over their financial futures.

The Value Exchange

When well-designed and clearly communicated, NQDCPs become a core part of the employer-employee relationship.

Top Reasons for Offering NQDCPs

Seizing the Opportunity: A Best-in-Class Approach

Tailor Benefits to Key Employees
Regularly survey employees and align offerings with both business and individual

Close the Comprehension Gap
Offer benefits education to enhance value and engagement.

Maximize NQDCP Value
Highlight long-term advantages and simplify participation.

Bringing it all together...

Key Takeaways for 2025

Set your organization up for success with your salary increase budgets for the new year. **3.5%** is the anticipated average.

Be sure to assess the impact and potential of your variable pay programs - utilize incentive pay is a key part of your compensation strategy.

Don't wait to update your compensation structure ranges. The predicted market trend calls for aging **2.2%.**

Communication must be at the forefront of your approach to compensation, especially given the demand for pay transparency.

Questions? We're glad to help!

Scan the QR codes to
add us on LinkedIn!

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Plan Ahead: Compensation Strategies for 2026

KEY TOPICS DISCUSSED
THE LATEST MARKET DATA ON 2026 PAY TRENDS
ANNUAL SALARY INCREASE BUDGETS AND PLAN RANGE MOVEMENTS
PAY STRUCTURES AND MARKET COMPETITIVENESS
NAVIGATING PAY TRANSPARENCY, INTERNAL EQUITY & TALENT RETENTION

September 16, 2025

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