Pay Increases:
How did we get it so wrong for so long?

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President & Founder

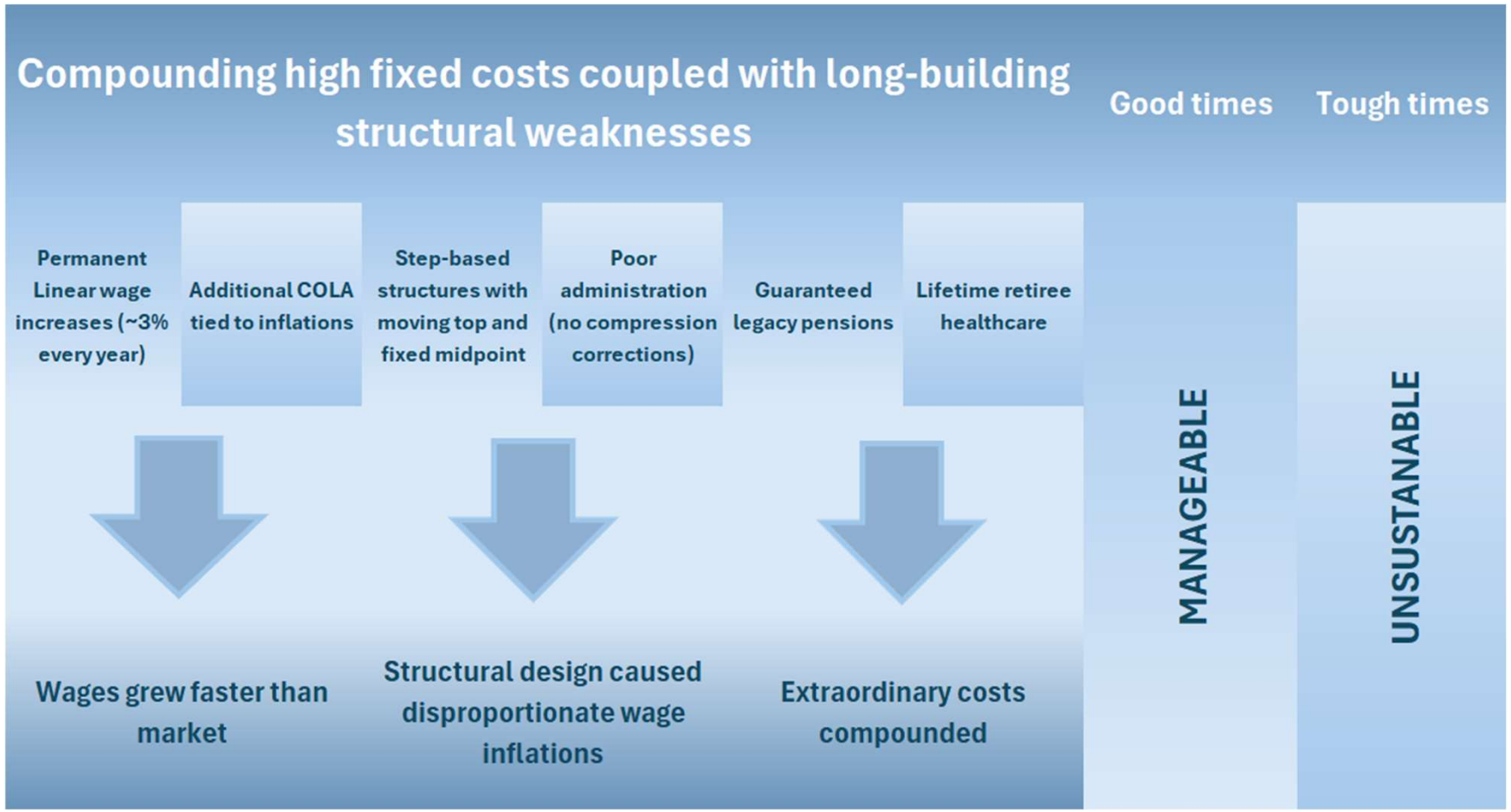
Objectives

- Analyze traditional and current practices for administering pay increases
- Determine employee placement within assigned pay ranges
- Explore data-driven techniques for developing wage progression
- Evaluate innovative and effective models for structuring pay increases
- Setting individual salaries based on objective, defensible criteria.

What Went Wrong at GM?



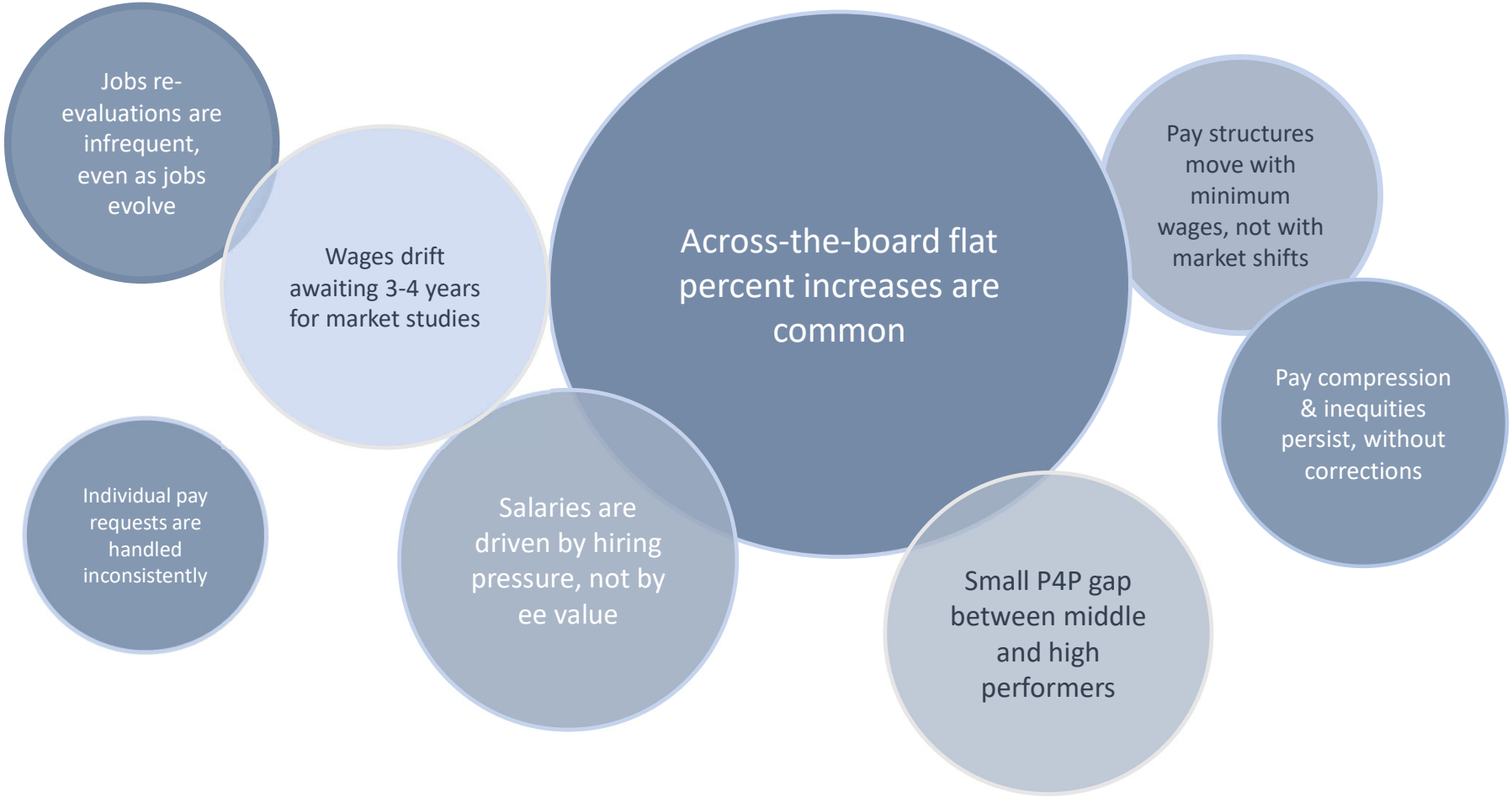
Curious Case of General Motors



GM Lesson: Contemporary Approach

GM Model	HR Know Proposed Model
Raises forever	Plateau after proficiency
Time = pay	Value = pay
Contracts = pricing	Market anchors = pricing
Wage inflation escalators	Market revalidation
No structure reset	Structure moves, pay lags
Compression grows	Compression is corrected

What We Get Wrong



Misconceptions

- When a job market value increases, ee's rate should increase
- Match ee's wage growth to market wage movements pattern
- Fixed annual wage increases will provide adequate wage growth
- Fixed annual wage increases will not cause inequities
- Wage increases must grow in value with tenure to reward loyalty

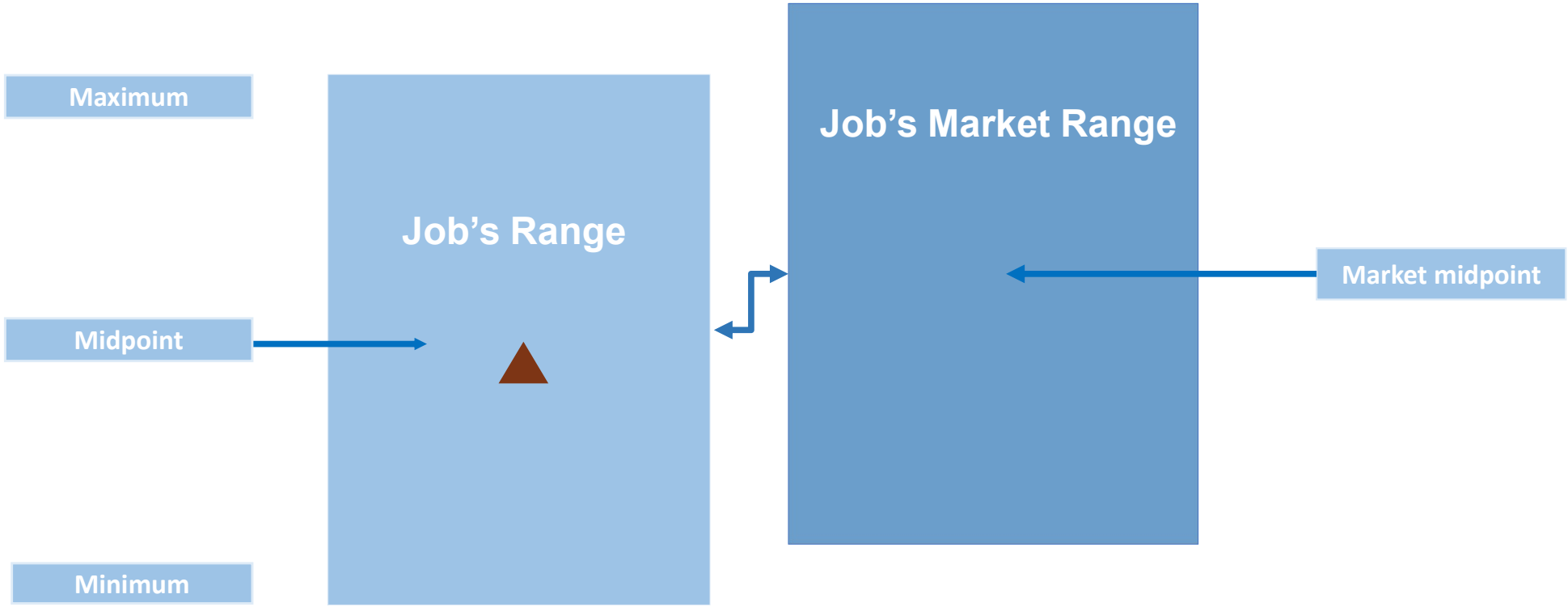
Movement of Pay Structures

- Pay structures are updated to reflect labor-market movement
- Individual pay increases do not always track structure changes
- Applying the same percentage to both can undermine natural pay progression curves

	Actual 2024		Actual 2025		Projected 2026	
	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly Nonunion	2.6%	2.6%	2.3%	2.5%	2.2%	2.4%
Nonexempt Salaried	2.6%	3.0%	2.4%	2.5%	2.4%	2.5%
Exempt Salaried	2.5%	2.8%	2.3%	2.5%	2.3%	2.5%
Officers/Executives	2.2%	2.5%	2.2%	2.5%	2.1%	2.2%
All	**2.5%**	**2.6%**	**2.3%**	**2.5%**	**2.2%**	**2.5%**

SOURCE: WorldatWork Study 2025-2026

Should Employee Move with the Market?



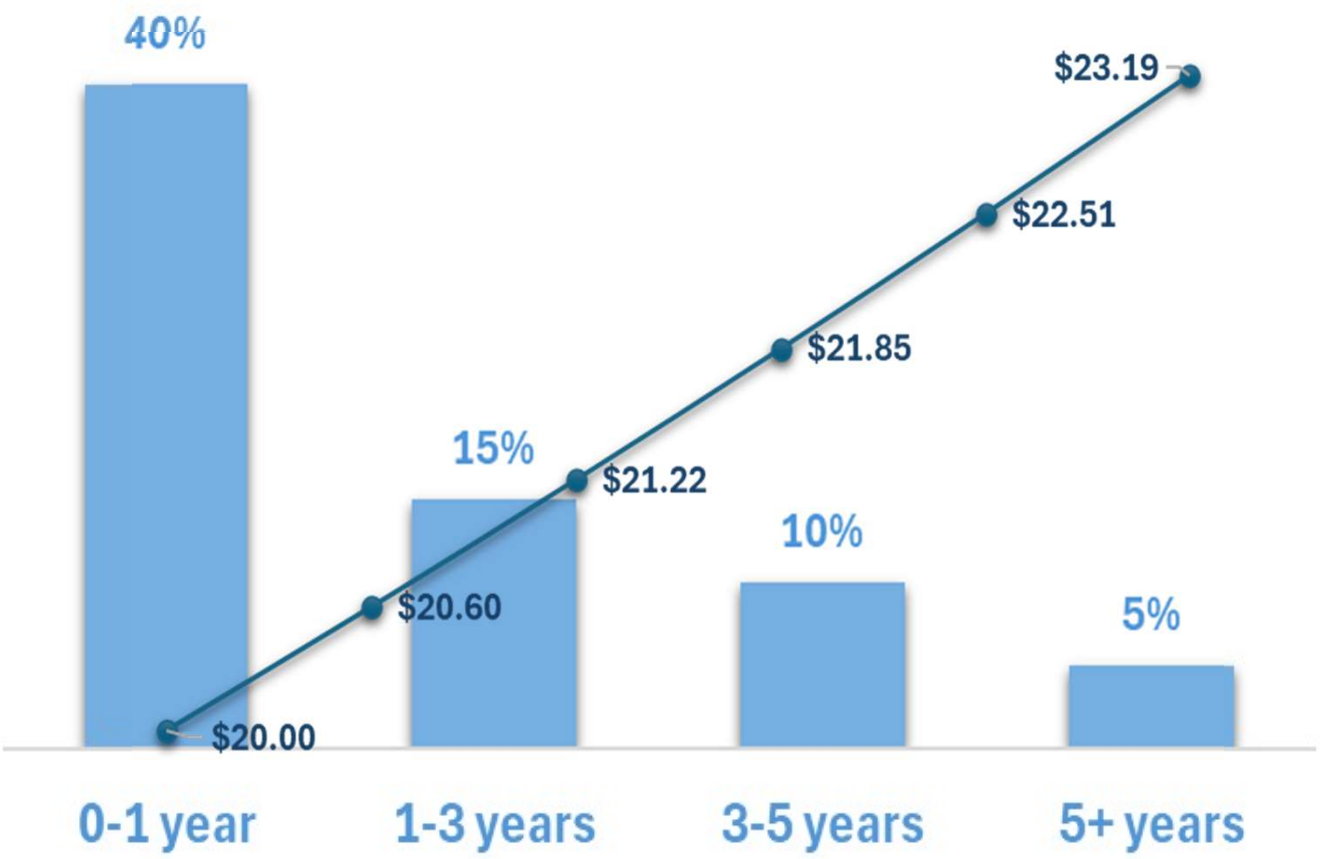
Type of Increases

COLA	• Definition: Linked to inflation or CPI-U • Cons: Unpredictable, volatile, assumes that spendings are equal to CPI
Merit	• Definition: Increases are based on merit, as defined by the organization • Cons: Has an element of P4P, but is often applied as an across the board increase
P4P	• Definition: Increases are based on performance ratings, as defined by the organization • Cons: In many cases performance is difficult to define; small variance between high and average performance awards
General	• Definition: An across the board increase; can be a flat percentage or flat dollar amount based on the grade midpoint • Cons: Often viewed as demotivator by high performers
Market	• Definition: Increases are based on the changes in wages within the relevant labor market • Cons: Time consuming, complex, and requires proven methodology and consistent administration
Combination	• Definition: Combining multiple methods to achieve organizational objectives • Cons: Complex, requires knowledge to address market influences and inconsistent wage inflations

Skill Growth & Pay Progression Disconnect

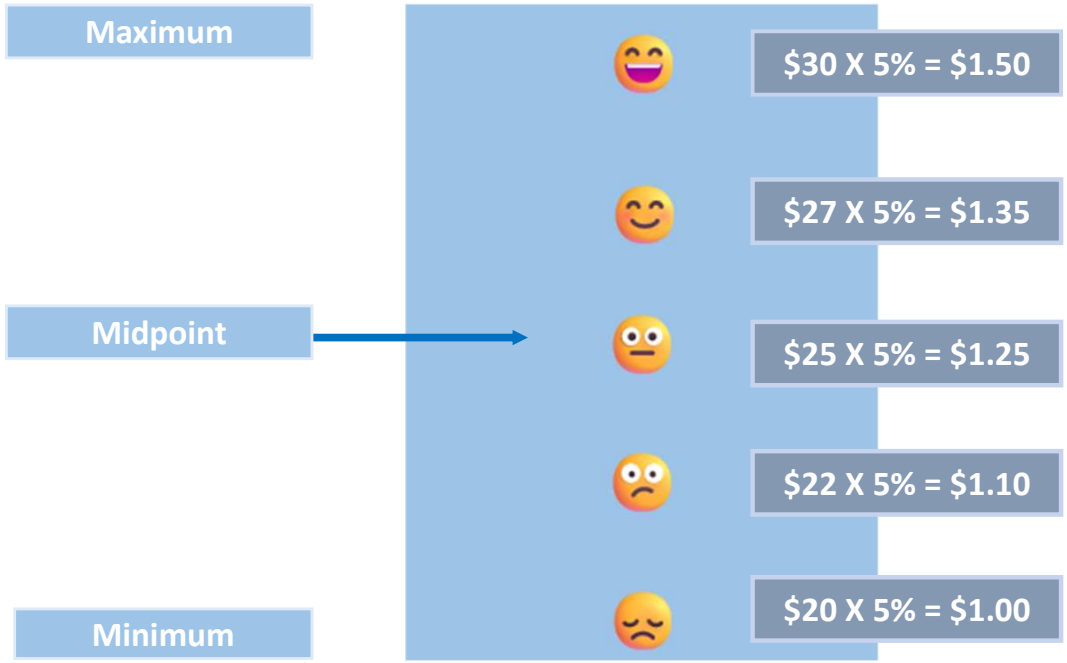
First-year worker	2-5-year worker	5-10-year worker	Over 10-years worker
• The highest learning curve • Knowledge explodes • Error rates collapse • Speed doubles	• Strong learning curve • Continuous knowledge gains • Errors are rare • Independence emerges	• Leveled learning curve • Gains are incremental • Expertise deepens slowly	• Slow learning curve • No significant knowledge gains • Refinements of skills

Turnover & Wage Growth by Tenure

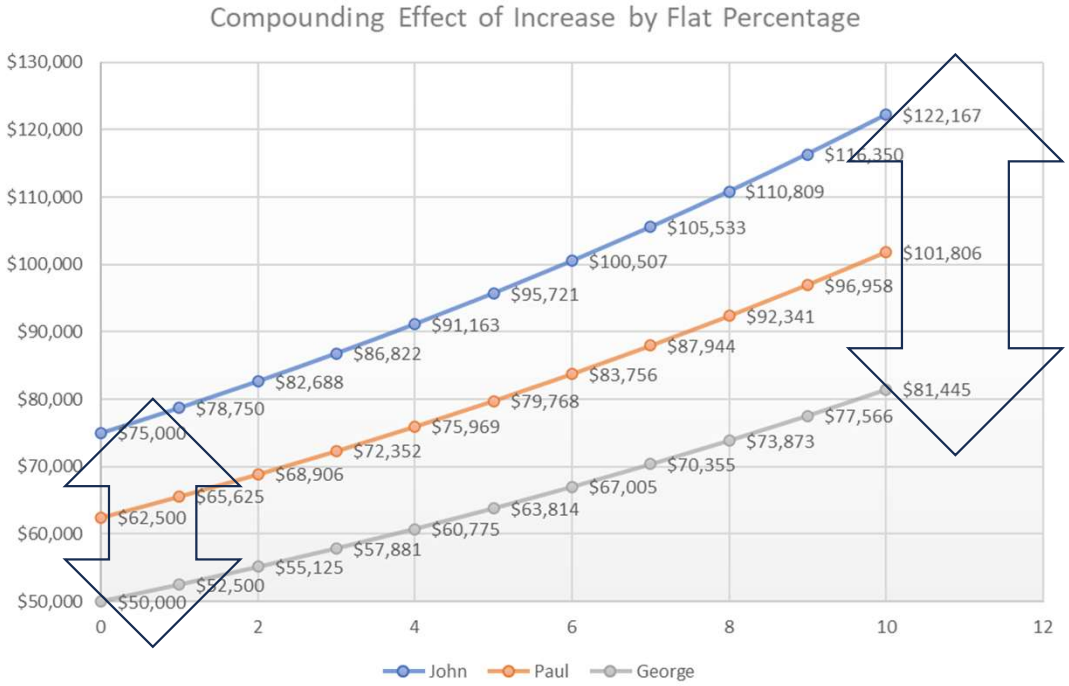


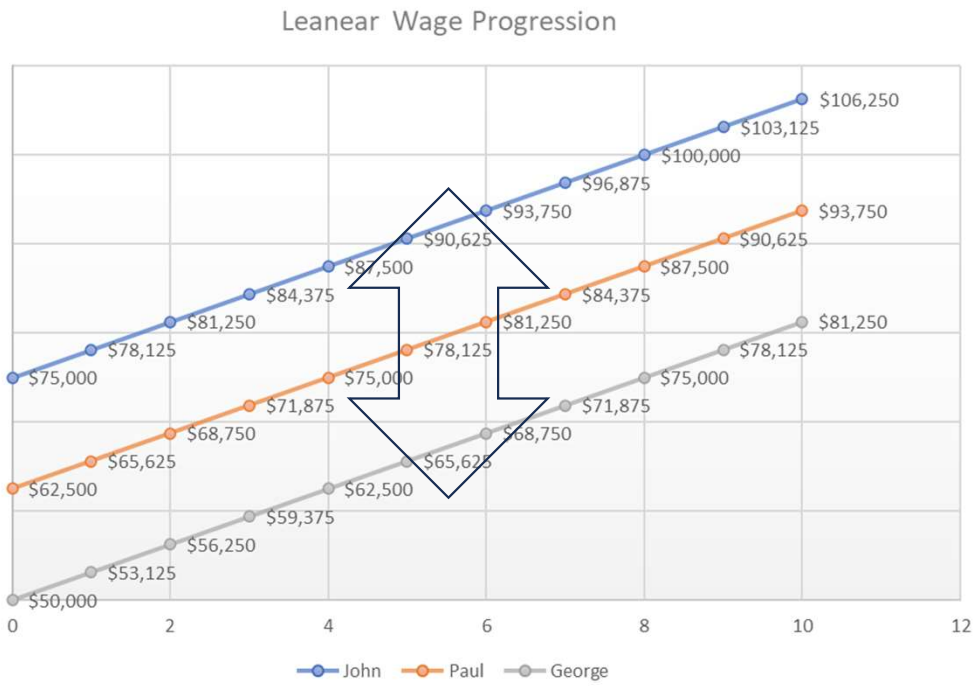
- Most systems show lowest wage growth when turnover risk is the highest
- As turnover risk declines, wage growth typically increases
- A similar inverse pattern exists between early knowledge gains and pay progression

Where Did We Get it Wrong?

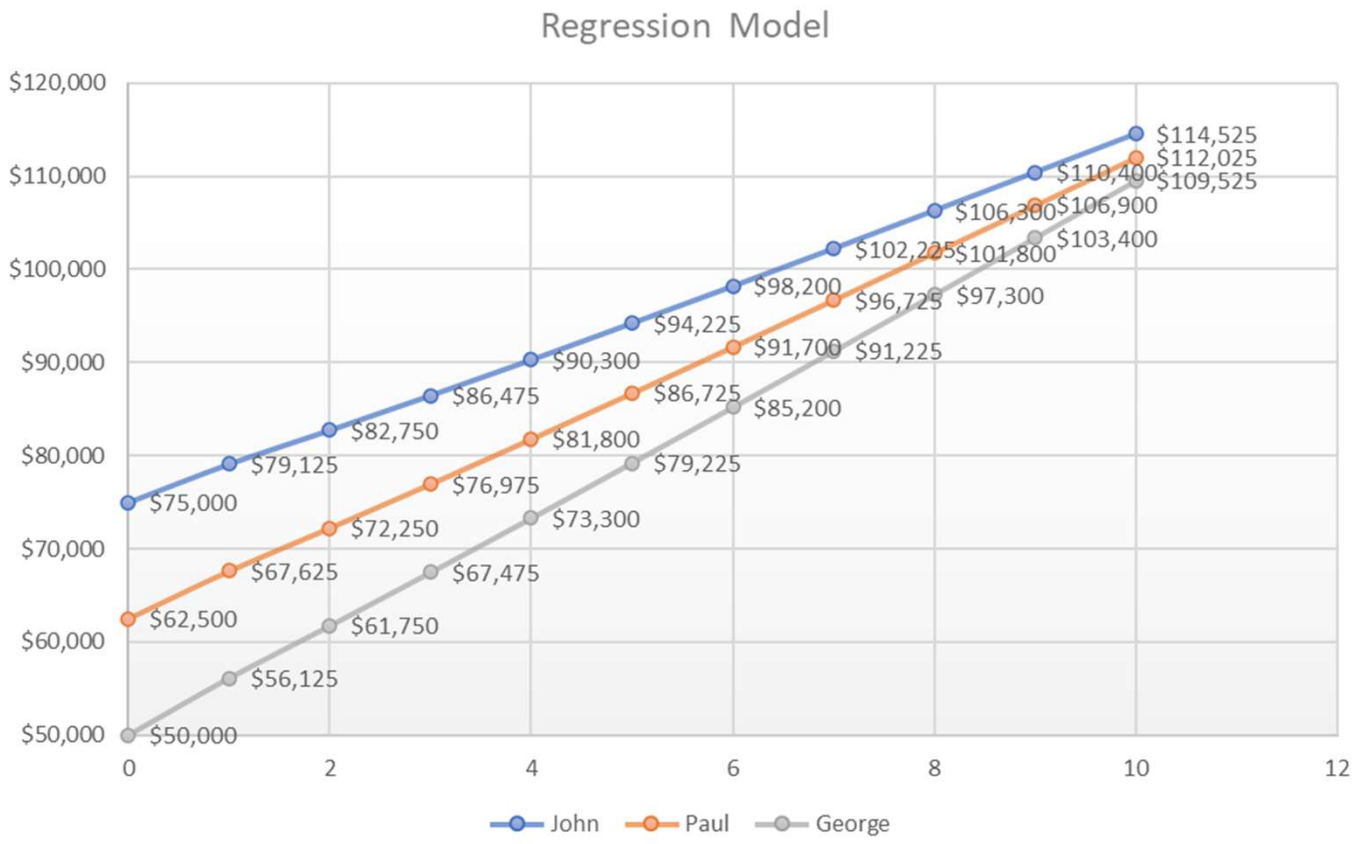


Wage Progression Models

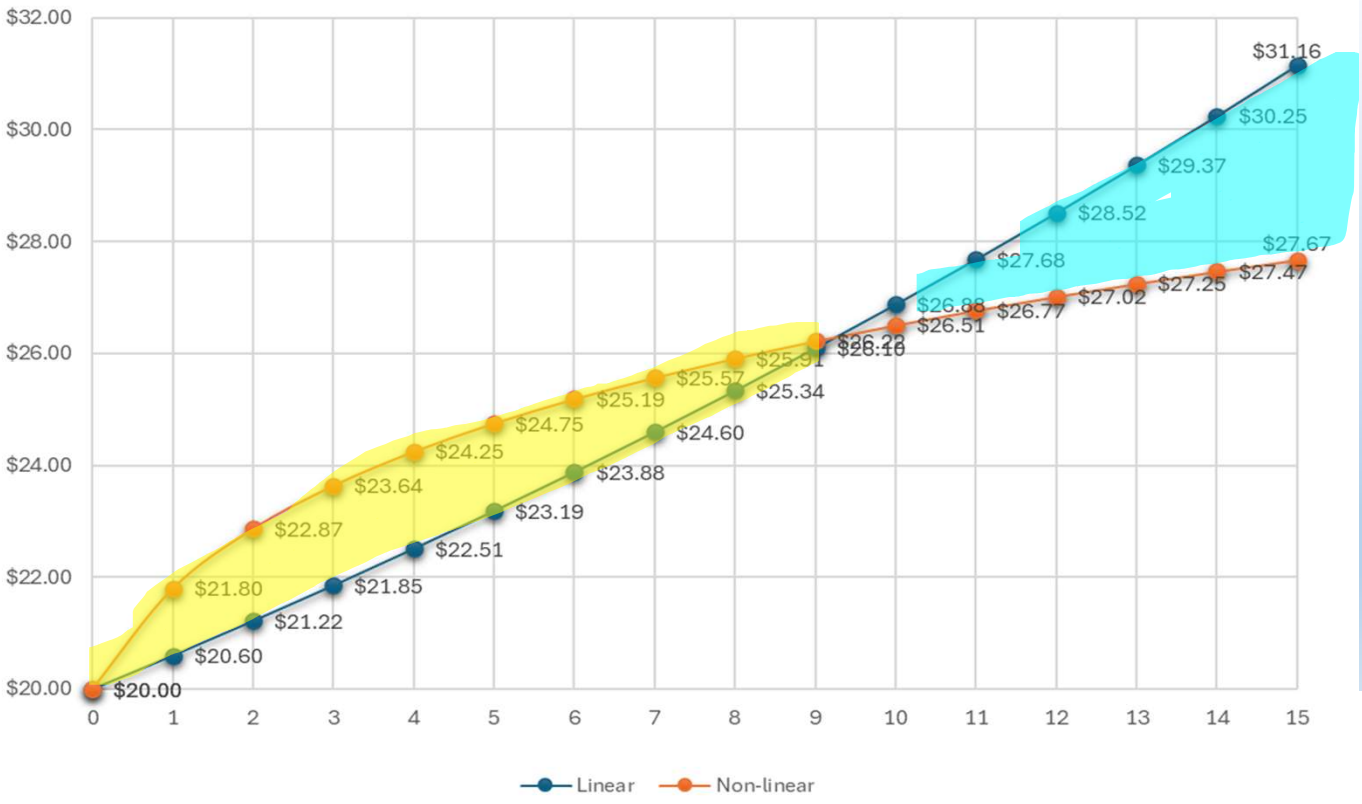




Wage Progression Models

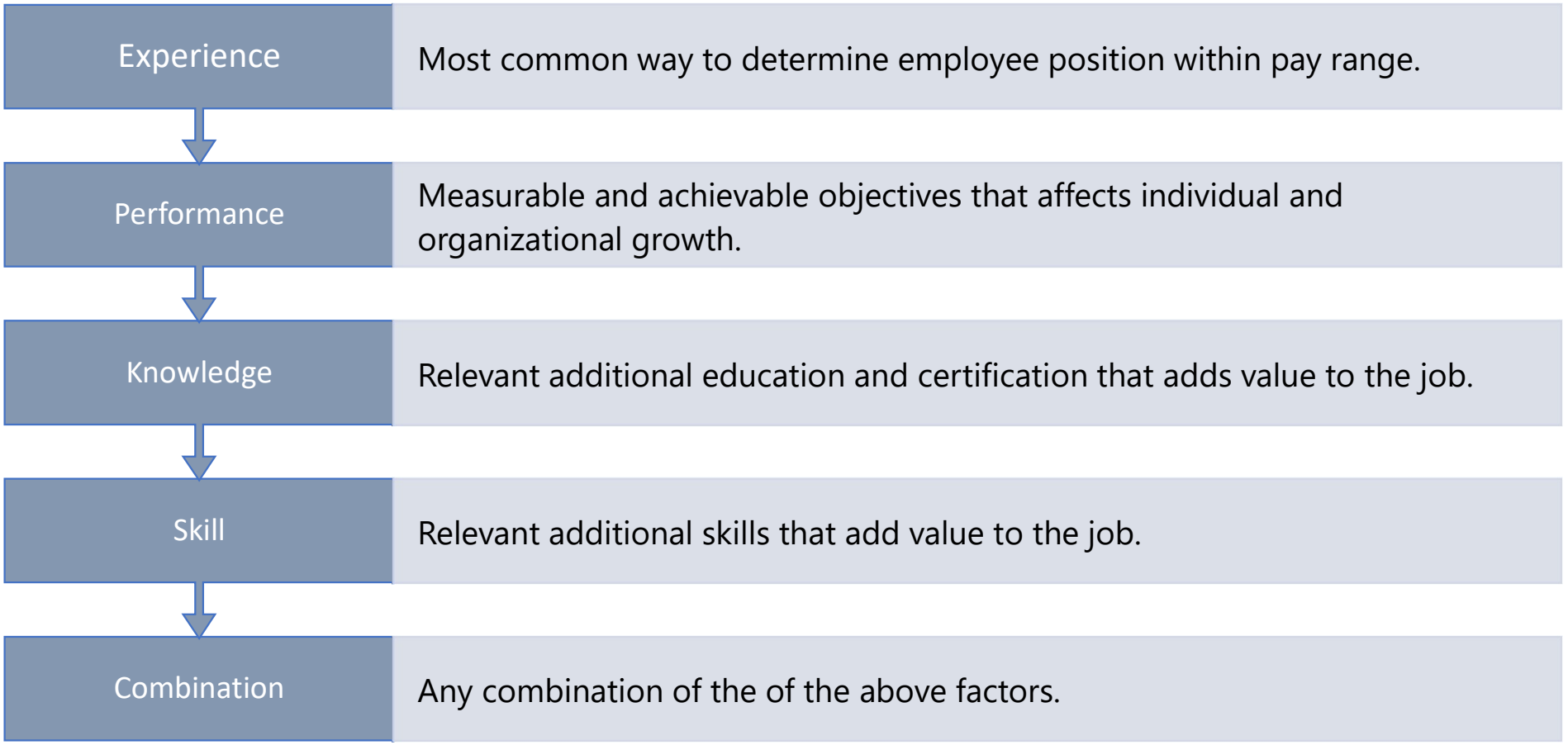


Linear Increases vs. Regressive Market Pattern



- Linear progression is slow, ineffective, and costly in a long run.
- Non-linear regression expedites wage growth to midpoint and slows it down after midpoint.
- It is better for motivation & retention.
- It cost more in a short-term but less in a long run.
- Contemporary labor market moves by regression.

Setting Objective Criteria for Pay



Main Issues of P4P Models

- P4P can introduce predictable structural problems:
- Supervisory discretion may introduce bias
- Focus on what's measures, not what's matter
- Small variance between middle and high performers
- In flat increase models high performers hit max faster
- Salary structures become administratively unstable

How to Make it Work

- Design and flawless execution are equally important
- Outputs are clear and measurable
- Employees (or teams) have direct control over outcomes
- Introduce models/measures to avoid structural distortion
- Consider two-factor performance award calculation

Wallace & Fay Merit Increase Matrix

- The Wallace & Fay merit matrix was widely used in early tech environments.
- Employers supplemented or replaced it with market-based pay, leveling, and incentives.
- However, if P4P is selected, WF system is an effective model.

Performance Rating	Low in Range	Mid-Range	High in Range
Exceptional / Outstanding	6% – 8%	4% – 6%	2% – 4%
Exceeds Expectations	4% – 6%	3% – 4%	1% – 2%
Meets Expectations	3% – 4%	2% – 3%	0% – 1%
Below Expectations	0% – 2%	0% – 1%	0%
Unsatisfactory	0%	0%	0%

QUESTIONS?

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