

Comp Planning for the Year Ahead

HRO Today | Gillian Manning

The economy is not making it easy on HR, but new research offers ways to strategic talent plan.

The current economic conditions put pressure on employers and employees alike. In recent years, compensation increases have been stagnant for workers while HR leaders continue to face pressures to spend strategically. As 2027 closes in and budgets are prepared for the year ahead, HR leaders are zeroing in talent strategy.

“While the talent market has certainly cooled, employers still face challenges attracting and retaining critical skills,” reports Adam Matula, Compensation Consultant for Marsh. “Employers are looking to spend more strategically, prioritizing critical talent, key skills, and areas of high turnover.”

That insight is derived from the July 2026 Mercer QuickPulse® US Compensation Planning Survey. It found that most companies’ compensation planning is influenced by the current economy, with 60% of respondents saying it has a moderate to significant impact on their future compensation decisions.

And HR leaders are anticipating this—as most budgets are reported as estimates and reflect an average increase in compensation budgets. For 2027, most organizations plan to set base salary merit increases at 3.2% and total salary increases at 3.5%, as of July. This marks the fourth year of stable budgets and indicates that organizations are providing just enough for employees to keep up with general inflation, which, for the 12 months ending in July 2026, sits at 3.4%, according to the U.S. Labor Bureau.

Just enough to keep up with inflation, however, may not be enough of a merit increase for top performers. So it’s critical that organizations are strategic about offered benefits and their ROI.

“It’s important for organizations to think holistically about how the rewards they offer align with employee needs,” Matula says. “Given economic constraints, organizations need to ensure decisions about rewards investments are rooted in what employees actually want and value to maximize ROI and deliver rewards that are impactful for employees.”

As leaders strategize for the future, Mercer found that they are primarily prioritizing salary benchmarking (57%), job architecture effectiveness (44%), communication of total rewards to employees (39%), job evaluation processes (35%), and employee benefits (34%).

To address these concerns, AI does not seem to be the answer—it appears to fall short in compensation planning. Mercer’s survey found that many organizations are considering or pilot

testing AI-use here, but they are too concerned about governance and data quality to make it a viable tool for compensation planning this time around.

“Adoption is moving fastest in areas like job leveling and market pricing, while fewer organizations are leveraging AI for salary increase recommendations, pay equity analysis, or budget modeling,” Matula explains. “Leading organizations are already using AI tools to make more consistent compensation decisions, respond more rapidly to market shifts, and better align pay strategies with business results. I think we can expect to see HR teams really focus on enhancing the compensation planning process with AI in the coming years.”

In the current market, Matula offers best practices for leaders to turn toward.

Be intentional. What worked last year and the year before may not be what’s effective in the year ahead.

“Don’t be afraid to question or change your historical practices. Merit budget distributions, promotion decisions, and other compensation planning processes need to keep pace with a rapidly evolving talent market,” Matula says.

Support managers. It’s also essential for leaders to support those who are in the middle. Managers are often the ones that have to explain compensation decisions to other employees. Ensuring that they are informed and equipped to articulate leadership’s choices regarding compensation philosophy and performance management can help aid in building trust in the decision-making process.

Be open and transparent. Transparency is another important practice in the current climate. Equity should be embedded in all compensation decisions and there should be a consistent messaging about how those decisions are made.

Matula says, “Employees and candidates are demanding equity and transparency in compensation more than ever. If you’re not telling a clear story about how pay is determined and linked with performance, then your employees may create the narrative themselves.”

With budgets holding steady for a fourth straight year, according to July estimates, the organizations that come out ahead in 2027 won’t necessarily be the ones spending the most—they’ll be the ones spending the most deliberately, and explaining that strategy clearly enough that employees won’t be surprised and left in the dark.