

Salary Budget Planning Checklist



Key Questions to Ask Before Approving Next Year's Compensation Budget

Salary budget planning is more than deciding on an annual increase percentage. Use this checklist to help identify compensation priorities, pay risks, and budget needs before final decisions are made.

1. Confirm the Business Context

Before setting the salary budget, clarify what the organization is planning for next year.

- Is the company expecting growth, contraction, or stability?
- Are new roles or departments expected to be added?
- Are any teams being restructured?
- Are there known retention concerns?
- Are certain roles becoming more critical to the business?
- Are labor costs expected to increase?
- Are there new markets, locations, or states to consider?
- Are there financial constraints that will affect compensation decisions?

Tip: Salary budgets should reflect business priorities, not just historical increase patterns.

2. Review Current Pay Practices

Assess whether current pay decisions are consistent and explainable.

- Do we have defined pay ranges or salary bands?
- Are managers using pay ranges consistently?
- Are starting salaries being approved consistently?

- Are promotional increases handled consistently?
- Are off-cycle adjustments common?
- Are exceptions tracked and reviewed?
- Do we have a clear compensation philosophy?
- Can we explain how pay decisions are made?

3. Assess Market Competitiveness

Identify where employee pay may be misaligned with the external market.

- Have we reviewed current market data?
- Are any jobs below the desired market position?
- Are any jobs significantly above market?
- Are hard-to-fill roles priced appropriately?
- Are critical roles aligned with business needs?
- Do we need geographic pay adjustments?
- Have market rates changed since the last review?
- Are new hire offers creating pressure on existing pay?

Tip: Market data should inform decisions, but it should not replace judgment, internal equity review, or business context.

4. Identify Pay Compression Risks

Pay compression can occur when employees with different experience, tenure, or responsibility levels are paid too closely together.

- Are new hires being paid close to longer-tenured employees?
- Are direct reports paid close to their managers?
- Are promoted employees paid only slightly more than peers in lower-level roles?
- Are high performers paid similarly to lower performers?
- Have minimum wage or market changes narrowed pay differences?
- Are employees raising concerns about pay fairness?
- Are managers requesting frequent pay adjustments?
- Do certain teams have more compression than others?

5. Review Internal Equity

Internal equity helps ensure pay decisions are fair, consistent, and defensible.

- Are employees in similar roles paid within reasonable ranges?
- Are differences in pay explainable based on experience, performance, location, skills, or scope?
- Are there unexplained pay differences by gender, race, or other protected categories?
- Are employees with similar responsibilities classified consistently?
- Are job titles aligned with actual responsibilities?
- Are pay ranges being applied consistently across departments?
- Are exceptions documented?

- Should any internal equity adjustments be considered?

Note: If potential pay equity concerns are identified, consider involving legal counsel before conducting or documenting a privileged pay equity analysis.

6. Separate Budget Categories

A single salary increase budget may not cover every compensation need.

Consider whether separate budget allocations are needed for:

- Merit increases
- Market adjustments
- Promotions
- Pay compression adjustments
- Internal equity adjustments
- Minimum wage increases
- Exempt salary threshold changes
- New hire offers
- Retention adjustments
- Incentive or bonus plan funding

Tip: Separating budget categories can help avoid forcing every pay decision into the annual merit process.

7. Plan for Promotions and Career Growth

Promotion budgets are often overlooked until managers request them.

- Are promotions expected next year?
- Are promotion criteria clearly defined?
- Are promotional increases budgeted separately?
- Are career paths or job levels documented?
- Are employees taking on expanded responsibilities?
- Are managers aligned on promotion timing?

- Are promoted employees placed appropriately within the new pay range?
- Are title changes tied to meaningful changes in scope?

8. Evaluate Performance Differentiation

If the company uses merit increases, determine whether performance is being meaningfully recognized.

- Do performance ratings influence salary increases?
- Are high performers receiving differentiated increases?
- Are low performers receiving reduced or no increases where appropriate?
- Are managers comfortable making performance-based pay decisions?
- Are performance expectations clearly documented?
- Are rating patterns consistent across departments?
- Are merit guidelines clear and easy to apply?
- Is the merit budget large enough to support meaningful differentiation?

9. Consider Compliance Requirements

Certain legal or regulatory changes may affect salary planning.

- Minimum wage changes
- State or local wage requirements
- Exempt salary threshold changes
- Pay transparency requirements
- Job posting pay range requirements
- Equal pay obligations
- Wage notice requirements
- Collective bargaining obligations, if applicable
- State-specific compensation rules for remote employees

Tip: Multi-state employers should review requirements by employee work location.

10. Prepare Manager Guidance

Managers need clear direction before communicating compensation decisions.

- Have merit guidelines been finalized?
- Do managers understand the budget limits?
- Do managers know how to recommend increases?
- Are approval levels clear?
- Are managers prepared to explain pay decisions?
- Are talking points available?
- Are managers trained on what not to say?
- Is there a process for exception requests?

11. Test the Budget Before Approval

Before final approval, review how the budget works in practice.

- What is the total projected cost?
- What is the cost by department?
- What is the cost by employee group or level?
- Does the budget address the highest-risk areas?
- Are critical roles appropriately covered?
- Are compression issues still unresolved?
- Are market gaps still significant?
- Are there unintended inequities?
- Is there enough flexibility for exceptions?
- Can leadership explain the rationale behind the budget?

12. Final Questions for Leadership

Before approving the salary budget, leadership should be able to answer:

- What compensation problems are we trying to solve?
- Which employee groups or roles are the highest priority?
- Are we rewarding performance, correcting market issues, or both?

- Are we comfortable with the internal equity outcomes?
- Are we prepared for employee questions?
- Are our decisions consistent with our compensation philosophy?
- Does this budget support our business strategy?
- What issues are we intentionally not solving this year?

Remember

A salary budget is not just an expense line. It is an investment in retention, performance, growth, and organizational stability.

Before approving next year's salary budget, take time to ask whether the budget is solving the right problems and supporting the company's broader business goals.



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