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Getting a Jump on Salary Budgets at Life Sciences Companies

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Each year, it seems the cycle for corporate budget planning starts a bit earlier. Many CHROs are already being asked to provide their salary increase budgets for 2025 at a time when empirical data is either premature or doesn't exist. As a result, our clients have asked what we are seeing or expecting based on conversations we've had with other companies in the industry.

Our life sciences practice collected early thoughts on the topic based on numerous conversations we've had with clients and other compensation professionals in the sector. With more than three months left in the year at this time, plus multiple Federal Reserve meetings, a presidential election, a number of federal jobs reports, and multiple other key economic indicators yet to be published, there's certainly room for movement in the specific numbers. However, we think there's enough consistency and key themes in the conversations we're having to feel confident in sharing that information.

To ground this topic, let's first define what we—and most for-profit companies—mean by a "salary increase budget." A salary budget breaks down into two key components. First, a merit increase component, which is often around 75% of the overall salary budget, and which provides for an increase to an individual's base salary based on performance over the previous year. (Note that "merit" adjustments are sometimes confused with cost-of-living adjustments [COLA]. While COLAs are perfectly acceptable, they are not merit-based. They are applied equally to employees across the organization and therefore distinct types of increases. Some companies in our experience choose to use COLAs in lieu of merit, but this is less common). Second, a market adjustment and promotion increase component which is used for increasing salaries for those who are below market or whose salaries should be increased due to a promotion.

Based on our client and colleague discussions, we've broken down some initial US salary budget estimates into ranges across two size segments within the sector.

Estimated 2025 US Total Salary Increase Budget Ranges in Life Sciences			
Segment	**Low End**	**Most Common**	**High End**
Small Company (≤300 employees)	0%	4.5%	5%
Large Company (>300 employees)	0%	4%	4.5%

Importantly, these ranges represent a deviation from previous years in two ways. First, we expect more companies will be at the lower end of the range this coming year when compared to previous years. In particular, this will be the case for those hit hardest by the interest rate environment, including early-stage biotech companies and some pre-revenue or early revenue medtech or tools companies.

Second, we expect the top end of the range to be more muted than in past years due to less spend being allocated to the market adjustment and promotion increase component of the budget. Over the past few years, this part of the budget ballooned due to higher rates of inflation, tight labor markets, and the cultural expectation of more frequent promotions as a retention mechanism. For 2025, we expect a pull-back from those levels given a cooling of the labor market, reduction in voluntary turnover, and a rethinking around the pace of promotions. In other words, we expect budgets to be generally more aligned with pre-pandemic levels.

It's also worth noting that unique circumstances may result in some companies targeting salary increase above the high end of our ranges. For instance, if a company has to catch up salaries after one or two years of salary freezes or low salary increases, then we could see budgets rising above 5% or 5.5%. But we expect these companies to be the exception rather than the norm.

In Summary

As we progress towards year-end, more accurate data will become available to support salary planning. In the meantime, human resources departments can be confident in using these projected ranges as a guide in their budgeting process, and apply their specific facts and circumstances to determine where in the range they should fall.

About the Authors

Terry Newth is a managing director at Pearl Meyer. He consults on the design, development, and assessment of executive compensation programs that support each organization’s business objectives, long term business strategy, and organizational culture. His clients range from Fortune 500 organizations to pre-IPOs to private and family-owned companies in a wide range of industries. Terry’s areas of expertise include pay strategy and philosophy development, market-based pay studies, incentive plan design, severance and CIC arrangements, outside director pay, transaction-related compensation, CD&A and supporting table disclosures, corporate governance, and share plan authorizations.

Rob is a managing director with Pearl Meyer with over 12 years of experience in executive compensation and finance. He serves as a trusted advisor to boards and senior management at public and private firms across North America. He specializes in working with emerging and high growth companies that are pursuing or have recently completed a transaction, such as an IPO or deSPAC. He often works with clients to help them prepare for an IPO and in the design of equity programs across each stage in their lifecycle, including pre-and-post IPO. Rob works with companies in all industries, but he has in-depth knowledge and expertise in designing compensations strategies for organizations in technology, fintech, green tech, and life science/biotech.

About Pearl Meyer

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