Pearl Meyer

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What to Do When Salary Compression Pinches the Life Sciences Industry

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The state of California increased their minimum wage 10 times over the last 10 years, not including the fast food minimum wage of $20 that went into effect in April 2024. Massachusetts increased its minimum nine times over the last 10 years. These steady increases to minimum wage in a fairly short timeframe can result in pay compression, which, in its simplest definition, occurs when new employees are paid higher than current employees at the same job level.

Life sciences companies may think this circumstance doesn't apply to their business, which can be characterized by relatively high public company salaries or the very different pay dynamics of startups. Yet a strong labor market can create compression in almost any industry and at almost any job level. Further, many life sciences companies are operating in geographies where talent competition is fierce. Increases in minimum wage generally impact lower level positions such as lab assistants, technicians, and production jobs, and the impact of pay compression can be felt up to as high as mid-level career positions. When high-potential talent perceives pay inequity, even subtly, the risks of disengagement and issues with retention increase. For leadership teams and boards, this becomes a governance issue tied to workforce sustainability and strategy execution.

Pay compression does not resolve itself. It requires deliberate and often ongoing attention. Even companies attuned to the issue may find themselves playing catch-up. However, there are steps that can be taken to proactively ease some pay compression concerns.

1. Perform regular market assessments. While it may take salary surveys an annual cycle to capture changes in minimum wage, it is important to monitor changes in market data, particularly for those jobs that may be most impacted by compression. Consider whether positioning pay to a slightly higher point in the range for current employees would help ease some anticipated compression.
2. Budget for regular market adjustments. It is common practice for companies to budget for annual increases but less so for market adjustments. Creating a separate budget for market adjustments allows companies to modify pay for current employees where needed without having to reduce merit budgets. This separate budget allows HR teams to address compression without sacrificing increases to

other employees. Consider budgeting up to 0.5% of current payroll for market adjustments outside of merit and promotional increases. While this amount won't fix all inequities, it is a good start to closing the gap.

3. Conduct a pay equity assessment. Many people hear the term pay equity and think of a discrepancy in pay between men and women. But a strong pay equity analysis also provides insight into how employees should be paid based on different factors including role complexity, performance, and experience. A pay equity analysis can provide HR with the approximate salary an employee should receive based on multiple inputs, which can then be compared to the employee's current pay. Comparing these values across different jobs or groups of employees shows where compression exists and what the cost may be to rectify it. Not addressing pay inequities could lead to higher turnover, decreased engagement, or even reputational damage.

Pay compression has existed, often under the radar, for years. But frequent increases in minimum wage and broader adoption of pay transparency laws are quickly bringing it to light for more employees. Given the costs of employee vacancies, recruiting, and turnover, not to mention uncaptured costs of disengagement, many companies find that proactively managing pay compression is the more cost-efficient path forward.

About the Author

Monal specializes in broad-based pay benchmarking and global job architecture design, helping clients align market data, career progression, and salary programs through modeling and implementation support.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.