Pearl Meyer

ARTICLE | JUL 2026

Five Ways Every Organization Can Gear Up for Fall Compensation Planning



Terry Newth

MANAGING DIRECTOR

For many organizations, annual compensation planning begins in Q4. Finance begins refining budget assumptions, business leaders evaluate organizational performance and talent priorities, and HR prepares for year-end salary reviews and incentive payouts.

However, the quality of year-end pay decisions is often determined long before managers begin entering merit increases. Organizations that invest time upfront to validate their compensation strategy, market data, and incentive programs are able to make more consistent, competitive, and financially responsible pay decisions.

As the planning cycle accelerates, compensation leaders should use this period to pressure-test five areas that often determine the quality, consistency, and credibility of year-end compensation decisions.

1. Pressure-Test Your Compensation Philosophy

A compensation philosophy should serve as the foundation for every pay decision. Yet many organizations develop a philosophy statement and rarely revisit it as business priorities evolve. More than just describing intent, an effective philosophy should help leaders make trade-offs when market competitiveness, internal equity, performance differentiation, and budget constraints are in tension.

Before planning begins, ask whether your philosophy still reflects your organization's objectives. Consider questions such as:

- Does your target market positioning still make sense?
- Has your talent strategy changed, and are critical roles clearly identified?
- Are you emphasizing growth, retention, or cost management?
- Are your pay-for-performance principles still aligned with leadership expectations?

If the organization has experienced significant change—such as acquisitions, leadership transitions, geographic expansion, or shifts in workforce strategy—it may be time to refresh the philosophy as well. A clear compensation philosophy provides a roadmap for decision-

making and helps ensure consistency across the organization.

2. Validate Your Peer Group and Market Reference Points

Market data is only as valuable as the peer group used for benchmarking. Before relying on market data for compensation planning, confirm that your peer group still reflects the organizations with which you compete for executive and critical talent, considering factors such as industry, complexity, and business model.

Evaluate whether the companies in your peer group remain appropriate in terms of size and stage. Have any new companies emerged that would be appropriate to include? Have any existing peers undergone strategic changes or M&A that would suggest they be removed?

Organizations should also look beyond the peer group itself and review the quality of their broader market reference points, including survey sources, market cuts, job matches, and aging assumptions. An outdated peer group can distort market positioning and lead to compensation decisions that either overpay or underpay critical talent. A peer group review helps maintain confidence that compensation decisions are based on relevant market comparisons.

3. Prepare for the Merit Increase Cycle

Merit planning involves much more than selecting a budget percentage. Before managers begin making recommendations, internal compensation teams should evaluate:

- Overall merit budget assumptions
- Salary structure movements and range adjustments
- Pay compression concerns
- Internal equity considerations
- Pay equity analysis and remediation planning
- Performance rating distribution and calibration
- Manager guidelines, approval thresholds, and exception protocols

This is also an ideal time to review manager education and compensation governance. Clear communication around budgets, approval processes, and pay guidelines helps improve consistency and reduce the likelihood of exceptions during the planning process.

Organizations that identify pay issues before merit planning begins are far better equipped to make thoughtful decisions, rather than reacting under tight deadlines.

4. Evaluate Annual Incentive Goals and Funding

Organizations with compensation committee oversight should also begin working with their respective committees on annual incentive goal progress and funding estimates. Q3 is an

opportune time to review the current incentive goals (particularly any strategic goals) to understand progress towards those established objectives. Key questions include:

- Are performance goals still achievable?
- Are threshold, target, and maximum performance expectations tracking as intended?
- Are funding projections aligned with current financial forecasts?
- Are performance measures clearly defined?
- Are there unusual items that may require leadership or committee review?
- Are strategic or individual goals being tracked with enough rigor to support final payout decisions?
- Do plan participants understand how payouts will be determined?

A proactive review also provides an opportunity to identify any plan administration issues before payouts are calculated. The goal is not to redesign the annual incentive plan midstream, but to ensure there is sufficient visibility into performance, funding, discretion, and documentation before final decisions are required.

5. Review Long-Term Incentive Methodology and Share Planning

For organizations that grant equity awards, fall is an ideal time to evaluate long-term incentive (LTI) strategy before the next grant cycle. The review should consider whether the current program continues to support retention, ownership alignment, executive competitiveness, and responsible share usage. Areas to review include:

- Award mix (stock options, restricted stock, RSUs, or performance shares)
- Vesting schedules and performance metrics
- Approach to sizing grants
- Target amounts
- Share reserve availability
- Expected share burn rate, dilution, and cost
- Grant timing

Organizations should also coordinate closely with finance, HR, and legal teams to confirm share availability and assess the potential impact of future grants under equity plan limits. For companies considering changes to their LTI program, completing the design work before year-end approvals can significantly streamline implementation.

Start Planning Before Planning Begins

Successful compensation planning is rarely the result of last-minute decisions. It is the product of careful preparation, thoughtful analysis, and strong collaboration between HR, finance, and business leadership.

By reviewing your compensation philosophy, validating your peer group, preparing for merit planning, assessing incentive funding, and evaluating long-term incentive strategy, organizations can enter the annual compensation cycle with greater confidence and better alignment between pay, performance, and business objectives.

The organizations that invest time in planning during the fall cycle will be better positioned to attract, retain, and reward the talent that drives tomorrow's success. The result is a process that supports competitive positioning, internal consistency, financial stewardship, and stronger alignment between pay outcomes and business performance.

About the Author

Terry leads the Life Sciences practice and advises companies from venture-backed to multinational on executive compensation strategy, incentive design, governance/disclosure, and transaction-related arrangements.

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.